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SURVEY  
OF LATIN  
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## **ECONOMIC SURVEY OF LATIN AMERICA 1976**

### **Volume II**

## MEXICO

### 1. The overall picture

The Mexican economy in 1977 went through a critical period in the reorganization of a growth strategy the potential of which had apparently become exhausted between the end of the 1960s and the beginning of the present decade.

The development model adopted in the post-war period gave good results in giving the country a diversified structure of production, based on the speeding up of the industrialization process and on the dynamic growth of manufacturing and all the series of services related with it. However, this development did not sufficiently increase the capacity for generating employment and reinforced a tendency to concentrate income in social and regional groups. Lastly, it produced increasing disequilibria in the balance of payments.

During the 1970s, the crisis in the development model in addition to the crisis of the industrialized countries, resulted in the stagnation of private investment and external demand. Mexico faced up to the situation by resorting to a policy of economic reactivation, which meant large increases in investment and in public consumption, and to activities aimed at maintaining the purchasing power of the wage-earners. All this took the form of a notable growth of the external debt and of increasing deficits in the balance of payments and the budget which, with the rise in domestic prices which was higher than that recorded in the industrialized economies, led to the devaluation of 1976. The ever-increasing complexity of the problems which arose during the 1970s, aggravated by the flight of capital which took place before and after the devaluation, and the level of external indebtedness, produced in 1977 a dilemma of whether to adopt a policy of economic reactivation based on sustained public spending, or to decide on a policy of readjustment aimed at re-establishing the monetary and financial equilibria.

The prospect opened up by the confirmed existence of large oil fields, in terms of allowing the build-up in the long-term of a group of projects which would operate significant changes in the country's structure of

/production, also

production, also brought up the need of access to external financial resources in order to implement these projects. This helped the second option to gain ground, while the implementation of other development projects, including the second stage of the "Las Truchas" steel factory, was suspended or postponed.

During 1977, the existence of highly depressive factors of different kinds could be observed; they were dominated by the slow growth of the majority of activities, the relatively pronounced drop in investment, the increasingly serious situation of employment problems, the deterioration in real wages and the low rate of dynamism of external demand.

The economy was therefore in a phase of transition in which Government action tended in the long-term to lay the bases for a new stage of development, and in the short-term to check the spread of the disequilibria which had blocked the course of external financing.

The product in 1977 grew at a moderate rate (2.8%), slightly higher than that of the previous year (see table 1). This increase was basically due to the growth of oil activity and to a lesser extent to the reactivation of the agricultural export sector. The remaining productive activities grew at very similar or even lower rates than the previous year. The slow rate of economic growth, the low levels of investment - both public and private and especially the latter - and the relative increase in the prices of imported goods because of the devaluation, meant that there was a sharp drop of 13% in the volume of imports of goods and services (see table 2).

In the analysis of demand, the sharp decrease in gross fixed investment and the slow growth of consumption were not able to offset the increase in exports, based to a large extent on the growth of exports of petroleum. The performance of domestic demand was basically influenced by the constraint on public investment - aimed at reducing the budgetary disequilibria and the balance-of-payments deficit - the increase in the rates of under-employment and open unemployment and the restrictive wage policy. The latter phenomena also had a decisive influence on the drop in private per capita consumption.

Private investment, accentuating the tendency of the last two years, dropped sharply (13%) as a result of the low levels of activity and the consequent reduction in earnings and actual demand.

Table 1  
MEXICO: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	49.9	53.6	56.8	59.1	60.2	61.9
Population (millions)	53.7	55.5	57.3	59.2	61.1	63.1
Per capita gross domestic product (US dollars at 1970 prices)	929	968	992	998	983	978
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	7.3	7.5	5.9	4.0	1.9	2.8
Per capita gross domestic product	3.9	4.2	2.5	0.6		-0.6
Gross income <sup>b/</sup>	7.3	7.9	6.6	3.9	1.9	2.5
Terms of trade	0.5	3.1	9.4	-5.2	8.7	6.8
Current value of exports of goods and services		27.0	31.2	0.4	11.4	13.7
Current value of imports of goods and services		30.4	48.3	11.1	-3.2	-8.2
Consumer price index						
December to December	5.6	21.3	20.6	11.3	27.2	20.7
Annual average variation	5.0	12.0	23.7	15.0	15.8	29.1
Money	21.2	24.2	22.0	21.3	30.9	26.2
Wages and salaries <sup>c/</sup>						
December to December	...	...	...	...	16.3	-10.2
Annual average variation	...	...	13.1	0.7	8.7	-1.0
Rate of unemployment <sup>d/ e/</sup>	...	...	7.7	7.3	6.7	8.0 <sup>f/</sup>
Current income of government	16.6	25.3	37.9	42.5	30.7	40.4
Total expenditure of government	44.0	36.4	29.6	40.1	31.4	28.5
Fiscal deficit/total expenditure of government <sup>e/</sup>	28.6	34.4	30.3	29.1	29.5	22.9
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	-280	-492	-1 543	-2 377	-1 386	250
Balance on current account	-926	-1 423	-2 890	-4 081	-3 423	-1 786
Variation in net international reserves	220	141	38	177	-986	470
External public debt	5 065	7 070	9 975	14 449	19 600	22 912

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus effect of the terms of trade.

<sup>c/</sup> Refers to variations in minimum general wage.

<sup>d/</sup> Metropolitan area of Mexico City.

<sup>e/</sup> Percentage.

<sup>f/</sup> Estimate for first half of the year.

Table 2  
MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of Mexican pesos at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<b>Total supply</b>	<b>613 979</b>	<b>619 798</b>	<b>628 353</b>	<b>109.8</b>	<b>109.0</b>	<b>3.7</b>	<b>0.9</b>	<b>1.4</b>
Gross domestic product at market prices	550 290	560 807	576 432	100.0	100.0	4.0	1.9	2.8
Imports of goods and services	63 689	58 991	51 921	9.8	9.0	1.7	-7.4	-12.0
<b>Total demand</b>	<b>613 974</b>	<b>619 798</b>	<b>628 353</b>	<b>109.8</b>	<b>109.0</b>	<b>3.7</b>	<b>0.9</b>	<b>1.4</b>
Domestic demand	573 053	575 793	578 790	101.6	100.4	4.7	0.5	0.5
Gross domestic investment	156 273	147 209	142 204	22.6	24.7	5.7	-6.8	-3.4
Gross fixed investment	129 119	120 209	109 391	19.6	19.0	8.8	-6.9	-9.0
Public	63 418	58 979	55 971	7.5	9.7	24.1	-7.0	-5.1
Private	65 701	61 230	53 420	12.2	9.3	-2.8	-6.8	-12.8
Changes in stocks	27 154	27 000	32 813	3.0	5.7			
Total consumption	416 780	428 584	436 586	89.1	75.8	4.3	2.8	1.9
General government	58 349	67 218	70 041	7.8	12.2	17.9	15.2	4.2
Private	358 431	361 366	366 545	71.3	63.6	2.4	0.8	1.4
Exports of goods and services <sup>b/</sup>	40 926	44 005	49 565	8.2	8.6	-8.5	7.5	12.6

Source: CEPAL, calculations on the basis of figures supplied by the Banco de México.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by CEPAL for the purpose.

/Government consumption,

Government consumption, although 4% higher than in 1976, lost to an appreciable extent the dynamism it had shown in the last six years, when the annual rate of growth had increased by 12%. The 1977 performance was due both to the constraint on the purchase of non-personal goods and services and to a more rational use of human resources.

During the year there was recourse to a broad range of economic policy decisions aimed basically at countering the more critical short-term trends, notwithstanding the fact that others were adopted in connexion with institutional organization; they included the modification of the financial structure and State administration, in order to adapt them to the characteristics or modes of new phase of development. The conjunctural policy was essentially aimed at attacking inflationary and balance-of-payments problems, especially with regard to such propagation machinery, as the fiscal imbalance and bank credit.

One of the most important aspects of the anti-inflation programme was the policy to contain wages. In terms of annual averages, the minimum real wage was slightly less than in 1976. However, a decreasing trend continued throughout the year, so that at the end of 1977 it was 10% lower than in December 1976.

In its turn, the policy to contain public expenditure, and especially expenditure on investment, made it possible to slow the growth of the budgetary deficit, which at current prices remained nearly at the same levels as the previous year (around 56,000 million pesos). On the other hand, the reduction of public investment had secondary effects on the balance of payments, since imports were reduced and therefore less external financing was required, with the consequent contribution to the improvement of the external accounts.

The combination of all these measures made it possible to achieve the Government economic policy objectives of reducing the deficit on current account, restricting the increase of the external debt to approximately 3,000 million dollars, avoiding an increase in the imbalance of the budget and slowing down the inflationary process. However, the application of the stabilization policy in a situation of economic stagnation not only reinforced this tendency but aggravated other disequilibria, especially in employment and income distribution.

/With regard

With regard to monetary and credit aspects, measures were taken to increase the preference of savers for financial instruments in local currency. Mechanisms were therefore introduced and improved and were expected in the medium-term to permit a larger flow of funds and a clearer differentiation between the money and capital markets. Interest rates were thus raised and the numerous possibilities for investing funds were amplified so as to increase savings. Towards the end of the year, the issue of treasury certificates was also adopted as a monetary policy instrument; they can be used to carry out operations in the open market and complement the functions of the legal reserve.

Other short-term measures were aimed at increasing the capacity for financing by means of a reduction in the legal reserve rate and the concession of facilities to the credit institutions to cover over longer periods the liabilities arising out of the extraordinary support which the Central Bank gave them the previous year, and at inducing the banks to increase financing for small and medium industries, the construction of medium-level dwellings and the production of basic articles.

As a result of the application of these credit measures, and of the peso's stability during the year (the exchange rate varied between 22.17 and 22.99 per dollar), domestic savings increased, especially during the second half of the year. Since these resources were not used by the private sector to accumulate real assets, because the drop in domestic demand discouraged investment, the public sector tapped them to some extent in order to cover part of its expenditure.

In industrial policy two activities were joined up. A policy was drawn up to liberalize domestic prices - its most important effects will be seen in 1978 - leaving 77% of the 1976 products which were subject to this restriction outside State control. At the same time, a gradual reduction was made in the industrial protection which had predominated during the industrialization process with the abolition of import permits and the stressing of tariffs as an instrument of protection, so as to achieve more competition. Also so as to improve the position of manufactures abroad

/the indirect

the indirect tax refund certificates (CEDIS) were reintroduced, although with new features, including a reduction in the degree of national integration required and the annual increase of exports as a basis for granting these returns.

The most important event of the year in production, however, was certainly the confirmation of the new discoveries of petroleum in the south of the country, which increased confirmed reserves to 14,600 million barrels (this figure is 27% higher than the estimate of the previous year). Petroleum production also made it possible to increase exports of crude oil considerably, thus contributing decisively to the increase of overall exports since other exports grew slowly. In the medium-term, it is hoped that petroleum production, to which a huge investment programme has been allocated, will make it possible not only to reduce the deficit on current account, but to generate a surplus of some size which will contribute vital resources for stimulating key sectors of development.

## 2. Sectoral trends

### (a) The agricultural sector

In 1977, the agricultural sector grew by slightly over 3%, in contrast to the decrease of 4% of the previous year (see table 3). Despite this increase, the sectoral trend in the medium-term is rather one of stagnation, which began in the mid-1960s.

The increase over the last financial year basically had its origins in the recovery of agriculture which grew nearly 4% following a drop of nearly 9% in 1976. The rate of growth of livestock production, however, showed a slight decrease when it dropped from 3% in 1976 to 2.7% in 1977. The sub-sectors of less influence - forestry and fisheries - showed a similar performance; the former grew by 4% while the latter increased at a slightly slower rate (see table 4).



Table 3

MEXICO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Million of mexican pesos at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	51 228	49 286	50 974	11.8	9.3	0.9	-4.0	3.4
Mines and quarries	21 418	23 151	25 835	4.1	4.7	3.6	8.1	11.6
Mining	6 676	6 876	6 842	1.3	1.3	-5.6	3.0	-0.5
Petroleum extraction	14 742	16 275	18 993	2.8	3.4	8.4	10.4	16.7
Manufacturing	125 269	128 689	132 500	23.4	24.2	3.6	2.6	3.0
Construction	31 759	31 158	30 223	5.4	5.5	5.7	-1.9	-3.0
<u>Subtotal goods</u>	<u>229 674</u>	<u>232 284</u>	<u>239 532</u>	<u>44.7</u>	<u>43.7</u>	<u>3.4</u>	<u>1.1</u>	<u>3.1</u>
Electricity, gas and water	8 223	8 841	9 637	1.4	1.8	5.7	7.5	9.0
Transport, storage and communications	16 643	16 924	...	2.6	...	9.2	1.7	...
<u>Subtotal basic services</u>	<u>24 866</u>	<u>25 765</u>	<u>...</u>	<u>4.0</u>	<u>...</u>	<u>8.0</u>	<u>3.6</u>	<u>...</u>
Commerce, financial institutions and insurance	148 726	150 363	...	28.9	...	3.3	1.1	...
Real estate <sup>b/</sup>	35 794	36 510	...	7.6	...	2.6	2.0	...
Community, social and personal services <sup>c/</sup>	84 707	89 004	...	14.9	...	6.5	5.1	...
<u>Subtotal other services</u>	<u>269 227</u>	<u>275 876</u>	<u>...</u>	<u>51.4</u>	<u>...</u>	<u>4.2</u>	<u>2.5</u>	<u>...</u>
<u>Subtotal services</u>	<u>294 093</u>	<u>301 642</u>	<u>308 851</u>	<u>55.3</u>	<u>56.3</u>	<u>4.5</u>	<u>2.6</u>	<u>2.4</u>
<u>Total gross domestic product <sup>d/</sup></u>	<u>524 438</u>	<u>534 462</u>	<u>549 353</u>	<u>100.0</u>	<u>100.0</u>	<u>4.0</u>	<u>1.9</u>	<u>2.8</u>

Source: CEPAL, calculations on the basis of figures supplied by the Banco de Mexico.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Refers to ownership of dwellings only.

<sup>c/</sup> Also includes restaurants, hotels and services provided to enterprises.

<sup>d/</sup> As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
<u>Index of the agricultural gross domestic product (1970 = 100)</u>							
<u>Total</u>	<u>107.6</u>	<u>108.5</u>	<u>104.1</u>	<u>108.0</u>	<u>0.8</u>	<u>-4.0</u>	<u>3.4</u>
Crop-farming	104.4	103.7	94.7	98.5	-0.7	-8.7	4.0
Stock-raising	112.2	116.2	119.6	122.5	3.5	3.0	2.7
Forestry	115.9	116.4	120.9	128.2	0.4	3.9	4.0
Fisheries	117.3	120.9	125.1	125.1	3.0	3.6	3.7
<u>Production of main products (thousands of tons)</u>							
<u>Agriculture for domestic consumption</u>							
Sugar cane	33 499	34 366	31 387	31 500	2.6	-8.7	0.4
Green alfalfa	13 206	14 260	13 483	13 150	8.0	-5.4	-2.5
Maize	7 847	8 459	8 017	8 349	7.8	-5.2	4.1
Sorghum (grain)	3 494	5 589	4 027	4 105	59.9	-27.9	1.9
Wheat	2 789	2 798	3 363	2 451	0.3	20.2	-27.1
Oranges	1 420	1 615	1 787	2 345	13.7	10.6	31.2
Bananas (various types)	1 011	1 088	911	1 530	7.6	-16.3	67.9
Beans	971	1 027	740	870	5.8	-27.9	17.6
Soya beans	491	699	302	565	42.4	-56.8	87.1
<u>Export agriculture</u>							
Tomatoes	1 121	1 056	807	856	-5.8	-23.6	6.1
Cotton	513	206	224	327	-59.8	8.7	46.0
Coffee (processed)	221	228	212	228	3.2	-7.0	7.5
Strawberries	102	69	89	88	-32.3	29.0	-1.1
Cocoa	35	34	31	34	-2.8	-8.8	9.7
<u>Stock-raising</u>							
Beef	517	509	527	542	-1.5	3.5	2.8
Pork	376	386	389	451	2.6	-0.8	15.9
Eggs <u>a/</u>	7 849	8 043	8 301	8 620	2.5	3.2	3.8
Milk <u>b/</u>	4 387	4 830	5 183	5 558	10.1	7.3	0.7

Source: CEPAL, on the basis of official data.

a/ Millions of units.

b/ Millions of litres.

/(i) Crop-raising.

(i) Crop-raising. The effects of the devaluation of the peso in 1976 on the relation between domestic and external prices, the increase in the prices of some agricultural products in the international markets and the delay in increasing the guarantee prices of products for domestic consumption, in addition to a production structure where the incorporation of new land for crops is restricted, meant that during 1977 production for the exterior increased at the expense of some products for internal consumption. A detrimental period of rain in some wet areas - generally speaking devoted to production for internal consumption - reinforced this tendency. As a result, the production of maize, especially wheat, was less than internal consumption requirements.

The excellent prices which prevailed during the first half of 1977 for some export products (coffee, cotton, cocoa, tomatoes and vegetables), in addition to the effects of the new exchange rate, influenced the growth of the crops for the external market. For some of these, this did not take the form of an immediate increase in the volume exported, but will very probably have repercussions on the shipments and the amount of foreign exchange which the sector will generate in 1978.

Cotton production showed an exceptional growth of 46% (see table 4). This was due both to the larger area sown - especially on irrigated land - and to the better yields, which reached averages of more than four bales per hectare. This increase was not followed by an expansion of exports because of the low level of international demand for cotton in 1977. Because of this, exports dropped both in volume (8%) and in value (24%). The evolution of domestic demand for cotton as an industrial input was not favourable either because of the decrease in the manufacture of cotton yarns and fibres. For this reason, stocks nearly tripled.

The production of coffee, the prices of which were extremely high in the first months of the year, increased by 7.5%. In this case too the volume exported also decreased (36%), but the value increased (27%). As in other coffee-producing countries, when the international price began to drop in the last part of the year, stocks were accumulated in the expectation of a possible new increase in prices.

/The tomato

The tomato harvest - the third agricultural export product - increased by 6%, stimulated by a larger external demand, which increased as a result of the decrease in North American production due to the frosts which affected the crops in Florida. The same thing occurred in the case of fruit and vegetables, whose markets became diversified with the vigorous growth of exports to Canada.

Production for domestic consumption increased, generally speaking, reversing the drop of 1976; however, it was insufficient to deal with domestic demand for some of the basic food products of the majority of the population, such as maize, and wheat and oilseeds for the manufacture of edible oil.

Although maize production increased by 4%, it was inadequate to supply increasing domestic demand, and it was necessary to import approximately 1,700,000 tons, nearly twice imports in 1976. The small increase in the domestic supply of this crop was the result of the drought in the rainy zones of Bajío and Pacífico Sur and the replacement of maize by export crops in irrigated areas.

In the case of wheat, the drop in production was due to the competition with the cotton-growing (which was favoured by the increase in external prices) in the use of some inputs - such as water.

The production of beans, after dropping nearly 30% in 1976, increased by nearly 18% in 1977, which meant that it was possible to export approximately 7% of domestic output.

The oilseeds, safflower and soya beans, doubled their production compared with 1976. This growth especially in safflower production, was the result of the increase in cotton sowing; since its cycle is shorter, safflower can be sowed after the cotton has been harvested. Stocks of oilseeds were, however, inadequate to cover domestic demand, and it was necessary to increase the volume of imports by nearly 30%.

Cane sugar production remained stagnant at the low levels of the previous year, and prevented sugar from being exported. During this period, the State began to take control of most of national production of this article, by purchasing the mills belonging to a private group.

/(ii) Livestock

(ii) Livestock production. The livestock product grew at a rate of 2.7%, slightly less than that of the previous year which was 3%. The sector's performance was influenced by the reduction in domestic demand which was only partly offset by a reactivation of external demand, as a result of which exports of live cattle (1.5%) and meat (66%) increased. This stimulus to external demand was influenced by the decrease in North American stocks.

Milk production increased by less than 1% following two years of rapid growth (see table 4). Naturally, the small increase recorded in 1977 was inadequate to cope with the needs of an increasing demand for basic foods such as milk products.

(iii) General features of the agricultural policy. Unlike previous years, when stress was laid on expanding and improving the infrastructure, agricultural policy in 1977 was directed rather towards institutional reorganization and towards programming new development activities. In order to make a better attempt at harmonizing agricultural programmes the two ministries most directly connected with the problems of agricultural development were amalgamated - the Ministry of Agriculture and Stockbreeding, and the Ministry of Water Resources - while the Ministry for Agrarian Reform remained separate. At the beginning of the year the National Agricultural Plan was set going as a part of the Alliance for Production - a means of collaboration and joint action between the Government and private entrepreneurs aimed at reversing the unfavourable trends of investment and employment in recent years - with a view to developing agricultural, stockbreeding and forestry production, giving priority to the growing of maize, beans, wheat, rice, soya beans, oilseeds and sorghum. In its first year of operation, the Plan was blocked by the traditional inflexibilities of the country's structure <sup>1/</sup> and in addition faced the problem of adverse rainfall in some areas.

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<sup>1/</sup> See the notes on Mexico in CEPAL, Economic Survey of Latin America, 1974 and 1976 issues.

However, as has been said, the activity carried out in increasing basic social capital in agriculture was less relevant. As an example of this, it should be mentioned that nearly 60% of the irrigation work planned earlier was brought to a standstill in order to wait for the conclusion of the studies undertaken to reassign priorities in this area. At the same time, analyses were made to link this work with other activities connected with primary production.

The revision of the legal infrastructure was begun with a view to reorganizing the units of production, both in the case of small-holders and companies, strengthening owners' associations and favouring collective land development. It is hoped by this means to increase production and productivity and speed up the capital formation process by making the operation of agro-industries possible.

With regard to the agrarian problem which arose at the end of 1976, where by a presidential resolution 37,600 hectares of irrigated land were expropriated in the Valle del Yaquí, in Sonora, for distribution among a group of peasants - an event which produced a serious clash between the State and the former owners supported by the private sector - in May the Government ratified the ownership of the property for the new owners but promised compensation for only 17,600 hectares. After some months of bargaining over the price which should be paid for this land, the conflict came to an end in August with the payment of nearly 680 million pesos.

Lastly, in February 1977 the Department of Fisheries was set up, under the State centralization policy. Among the other units depending on this new institution are Productos Pesqueros Mexicanos and the Fondo Nacional de Fomento de Sociedades Cooperativas Pesqueras. The National Fisheries Development Plan, presented in August, proposes a policy to intensify stimuli to national production, in the expectation that this will triple around 1982 and make it possible to increase exports.

(b) Mining

The reduction in external demand, with the exception of copper and lead, meant that the output of the mining sector dropped more than 2% in 1977. In 1976 mining production had increased by more than 6% (see table 5).<sup>2/</sup>

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<sup>2/</sup> The value added by mining in 1976 increased by 3% and decreased in 1977 by 0.5% (see table 3).

Table 5  
MEXICO: INDICATORS OF MINING PRODUCTION

	Indexes (1970 = 100)				Growth rates			
	1974	1975	1976	1977	1974	1975	1976	1977 <sup>a/</sup>
<b>Total mining production</b>	<b>115.3</b>	<b>110.3</b>	<b>117.3</b>	<b>114.5</b>	<b>-9.1</b>	<b>-4.3</b>	<b>6.3</b>	<b>-2.4</b>
<b>Precious metals</b>	<b>86.0</b>	<b>87.4</b>	<b>98.0</b>	<b>109.4</b>	<b>-2.4</b>	<b>1.6</b>	<b>12.1</b>	<b>11.6</b>
Gold	67.8	73.0	82.1	106.3	1.3	7.6	12.5	29.5
Silver	87.6	88.8	99.5	109.7	-3.2	1.4	12.0	10.2
<b>Non-ferrous industrial metals b/</b>	<b>107.2</b>	<b>97.2</b>	<b>108.2</b>	<b>104.3</b>	<b>7.1</b>	<b>-9.3</b>	<b>11.3</b>	<b>-3.6</b>
Zinc	89.7	85.9	97.3	98.9	-3.2	-4.2	13.3	1.6
Lead	123.4	101.1	113.3	91.4	21.6	-18.1	12.1	-19.3
Copper	135.5	128.2	145.8	146.7	2.7	-5.4	13.7	0.6
<b>Metals and minerals for the steel industry c/</b>	<b>137.8</b>	<b>140.0</b>	<b>148.9</b>	<b>154.5</b>	<b>7.7</b>	<b>1.6</b>	<b>6.4</b>	<b>3.8</b>
Coke	152.1	153.5	160.9	178.6	7.0	0.9	4.8	11.0
Iron	127.9	129.0	139.5	136.8	7.2	0.9	8.1	-1.9
<b>Non-metallic minerals d/</b>	<b>140.5</b>	<b>138.0</b>	<b>128.5</b>	<b>110.4</b>	<b>23.0</b>	<b>-1.8</b>	<b>-6.8</b>	<b>-14.1</b>
Sulphur	168.1	156.7	155.7	131.9	44.4	-6.8	-0.6	-15.2
Fluorite	113.9	111.3	91.6	67.4	2.4	-2.3	-17.7	-26.4

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Also includes arsenic, antimony, cadmium, mercury, bismuth, molybdenum, tungsten, selenium and tin.

c/ Also includes coal and manganese.

d/ Also includes barite, graphite, dolomite, kaolin, silica, gypsum, phosphorite, limestone, sodium sulphate, feldspar and magnesite.

/With regard

With regard to the precious metals, the coming to fruition of important mining and metallurgical projects made possible a substantial increase in the output of gold (30%) and silver (10%). In the case of silver a considerable increase in domestic consumption was recorded in 1977 owing to large-scale minting of silver coins. For this reason, despite the tendencies for international prices to increase, the volume exported decreased by 13%.

Among the non-ferrous metals, there was a considerable increase in exports of copper concentrates, as well as electrolytic copper - a product which is normally destined for domestic demand - vis-à-vis the reduction in domestic consumption.

Zinc production increased by less than 2% in response to a lower external demand both for zinc concentrates and for the metal itself. The prospects of this metal, however, improved in the medium-term as a result of the start made to the construction of the second electrolytic refinery and the expansion of the existing plant by 20,000 tons. It will thus be possible to double production around 1981 and cut out exports of concentrates altogether.

Lead production dropped by slightly over 19%, although improved international prices made it possible to increase exports by nearly 30%.

Iron and coke, the most important iron and steel products, evolved differently. Iron production dropped by 2% when the production programmes to give an outlet to the accumulation of stocks were cut back; however, coke production continued to increase (11%) owing to the opening-up of the new mines of Fundidora Monterrey, Altos Hornos de México and Industrial Minera México, in Coahuila.

Production of sulphur and fluorite, the main export products among non-metallic minerals, continued to drop sharply (see table 5). The drop in external demand and the stabilization of prices as from 1975 explains the situation. An important aspect of the evolution of mining was the beginning of the programme of investment in extensions and in new outputs, which will make it possible to double production of the mining industry in the medium-term, with important effects on employment. The investment

/programmed by



programmed by the private enterprises and by semi-public enterprises with a minority ownership of State capital for the period 1977-1982 amounts to 50,000 million pesos and involves inter alia, projects covering copper, zinc metal, iron and steel ores, bauxite and phosphoric rock.

Lastly, because of its importance mention should be made of the adoption of a new law on taxation and development of mining, where a readjustment has been made to the legal system in order to stimulate sector development.

This provision restructures the fiscal régime applicable to mining, by eliminating the general and specific taxes on exports and the first-hand sales of mining and metallurgical products, and only maintains the taxes on mining concessions and on the production of gold, silver and sulphur, (9%), iron, coal and manganese (4%), and the rest (7%). A series of special fiscal processes are also being set up for mining activities including the reimbursement of 75% of the federal tax on imports of machinery and equipment not manufactured in the country, and the accelerated depreciation of the new investment and intangible assets, provided that the amount depreciated is reinvested in the sector; a tax deductible subsidy of 2% on the value of the minerals aimed at offsetting the expenses of prospection, exploration and development is also granted.

(c) Petroleum and petrochemicals

During 1977 the gross domestic product of petroleum activity increased at the rate of nearly 17%, the highest of the rates recorded since 1974, when production began in the new oil-bearing areas in the southeast of the country, and marked a very important change in the progress of the industry (see table 3).

The rate of growth of production of crude oil was 22%, production for export was notable (53%) compared with a more moderate increase in production for domestic consumption (17%). As a result of this, oil exports as a percentage of total production increased by 15% in 1976 and nearly 19% in 1977 (see table 6).

Table 6  
MEXICO: PRODUCTION AND REFINING OF PETROLEUM

	Millions of tons					Growth rates			
	1973	1974	1975	1976	1977	1974	1975	1976	1977
Production of crude petroleum	165	210	265	293	358	26.9	26.2	10.7	22.1
Domestic consumption	...	175	226	249	291	...	29.0	10.4	16.7
Export	...	35	39	44	67	...	12.3	12.2	53.2
Refining a/	211	236	250	274	309	11.7	5.9	9.7	12.7

Source: CEPAL, on the basis of official figures supplied by Petroleos Mexicanos and the Banco de México S.A.

a/ Includes crude petroleum and processed and reprocessed natural gas in liquid form.

/The growth

The growth of refining (13%) exceeded that of the previous year (10%), since the activity of the new refinery at Tula, Hidalgo, which began to operate in 1976 continued throughout the year. The increase in crude oil refining capacity which this fact implied determined the suspension of earlier shipments of petroleum for refining abroad, with the consequent saving of foreign exchange.

The growth of oil exports, as a result of the excellent prices which prevailed during the year in international markets, allowed the share of fuels and lubricants in total exports of goods to increase from 16% in 1976 to 22% in 1977 (see table 9).

During the year the existence of very large reserves was confirmed, opening up very favourable prospects for the country's economy. Up to the month of July, confirmed oil reserves amounted to 14,600 million barrels - 27% over the previous year's estimate - which brought the relation between reserves and the present level of consumption up from 24.9 to 33.3 years. In addition to the area of Reforma, important discoveries were made in the north of the country - Monclova and Baja California - where production in the older oil fields was in decline.

So as to rationalize petroleum production, Petróleos Mexicanos (PEMEX) prepared an investment programme for 1977-1982 for a sum of close to 394,000 million pesos (approximately 17,000 million dollars). The investment programmed would have as its objective to increase the production of oil and condensates from 292 million barrels in 1976 to 818 million in 1982, to double refining capacity from 270 million barrels in 1976 to 577 million in 1982, to increase the capacity for producing petrochemical products, and to export natural gas at a rate of 2,000 million cubic feet per day in 1982. Part of this investment programme includes the construction of a pipeline from the Cactus fields in Chiapas to San Fernando in Nuevo León, with a sideline to Reynosa, Tamaulipas, and a total length of 1,344 kilometres. The aim of the work is to provide gas to the north area of the country and export surpluses to the United States,<sup>3/</sup> thus avoiding wasting gas, since

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<sup>3/</sup> The total cost would be 23,000 million pesos (1,000 million dollars) of which approximately 50% would serve to lay the pipeline Cactus-San Fernando-China, while the rest would be allocated to the San Fernando-Reynosa section (including the compressor stations and others).

it is calculated that there will be surplus of nearly 2,000 million cubic feet daily in 1982. This surplus will be obtained not only as a result of continually-increasing petroleum production, but also because the crude oil in the new fields being developed contains a higher proportion of gas combined with it, which is inevitably obtained at the same time as the oil.<sup>4/</sup> Despite the polemics which have arisen around the advantages of this undertaking,<sup>5/</sup> and some uncertainty as to the possibility of reaching an agreement with the purchasers of the gas, construction was begun and at the end of October 426 kilometres of pipeline had already been laid.

The product of the petrochemicals industry dropped by around 4% in 1977. The performance of this branch of industry over the last three years (with an average growth of 2.4%) contrasts with the dynamism it had been showing since the mid-1960s, which had allowed the average growth rate to be maintained at nearly 20% during the period 1965-1974.

The slowness of the development of the petrochemicals sector was related to the weak growth of investment which affected the process of substitution of this type of product, and to a drop in domestic demand, as a result of the economic situation of recent years.

As part of the PEMEX investment plan for 1977-1982, 16% goes to the petrochemicals industry, representing an investment of around 56,000 million pesos; this shows the importance given to the development of an activity so closely linked to this basic resource. The complexes which will receive most support are those of Cangrejera and Allende, situated in the southeast. It is expected that this investment programme will not only lead to self-sufficiency in petrochemical products, but to the creation of surpluses for export, and that this will naturally allow a rational use to be made of the new oil production units.

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<sup>4/</sup> The wells of the southeast developed up to 1977 have a gas/oil ratio of 1,500 to 1,800 cubic feet per barrel, while that of some wells in the new areas being developed is around 5,000 to 7,000 cubic feet per barrel.

<sup>5/</sup> Two currents of opinion were basically manifested: one saw in this an outlet to the economic crisis, and the other pointed out the danger of exhausting the reserves and increasing the link with the United States.

(d) Manufacturing

During 1977, the manufacturing product increased by 3%, at a rate slightly above that of the previous year which had been around 2.6%. However, these rates were far below those achieved between 1972 and 1975. Stagnation in this sector originated in a reduction in real demand, which basically affected the branches producing consumer durables with a drop of 5%, the decrease in investment which influenced the production of capital goods, which dropped around 10%, and the standstill in productive activity which took the form of an increase of only slightly over 2% in the production of processed raw materials (see table 7).

Manufacturing activity developed unequally throughout the year, with the result that within the first few months production dropped, while as from the second quarter it revived.

Among the sectors producing non-durable consumer goods which reflected the deterioration in domestic demand, was the foodstuffs, beverages and tobacco sector which generates around 32% of manufacturing output and whose growth rate did not reach 3%. As far as consumer durables are concerned, the most notable decreases occurred in the manufacture of motor vehicles (7%), domestic appliances - except for stoves - and electrical apparatuses. In motor vehicles, the largest decrease was in popular-type cars (24%), which could be a symptom of a loss of purchasing power on the part of the middle strata of the population. Production of compact, sports and luxury models on the contrary increased (4.1, 12 and 7% respectively).

Among investment goods, the items most affected were the production of agricultural machinery (except tractors) which dropped to almost half, the construction and repair of railway equipment, which dropped by 29%, and the manufacture of trucks, which dropped by more than 13%.

Table 7

MEXICO: INDEXES OF MANUFACTURING PRODUCTION

	Indexes (1970 = 100)					Growth rates			
	1973	1974	1975	1976	1977 <sup>a/</sup>	1974	1975	1976	1977 <sup>a/</sup>
1. Total	122.4	129.9	135.2	139.0	143.2	6.1	4.1	2.8	3.0
By branches of activity									
Food, beverages and tobacco	111.6	115.0	121.7	125.0	128.5	3.0	5.8	2.7	2.8
Textiles	131.1	134.1	138.9	142.1	151.5	2.3	3.6	2.3	6.6
Footwear and clothing	128.0	131.3	136.9	140.3	152.9	2.6	4.3	2.5	9.0
Wood	107.2	117.7	124.4	126.3	138.3	9.8	5.7	1.5	9.5
Paper and paper products	114.7	128.7	121.4	136.2	143.2	12.2	-5.7	12.2	5.1
Printing and publishing	112.6	120.1	128.0	136.1	125.6	6.7	6.6	6.3	-7.7
Rubber products	126.0	127.9	143.2	162.0	142.9	1.5	12.0	13.1	-11.8
Chemical products	136.3	143.1	147.2	156.9	168.5	5.0	2.9	6.6	7.4
Non-metallic minerals	140.7	148.6	162.3	174.5	189.7	5.6	9.2	7.5	8.7
Basic metals industry	118.4	130.9	132.0	134.8	144.2	10.5	0.8	2.1	7.0
Machinery	121.7	129.0	136.3	148.7	151.2	6.0	5.7	9.1	1.7
Transport equipment	140.5	169.4	178.1	157.1	135.4	20.6	5.1	-11.8	-13.8
By type of goods									
Consumer goods	120.0	125.1	130.5	133.6	141.2	4.3	4.3	2.4	5.7
Non-durable	118.1	121.1	125.8	129.3	139.3	2.5	3.9	2.8	7.7
Durable	132.6	151.9	162.0	163.0	154.4	14.6	6.6	0.6	-5.3
Raw materials	124.9	133.7	138.0	144.5	148.0	7.0	3.2	4.7	2.4
Capital goods	136.1	162.7	176.4	166.9	151.0	19.5	8.4	-5.4	-9.5
2. Some goods b/									
Sugar	115.4	119.3	109.8	115.0	120.0	3.4	-8.0	4.7	4.3
Beer	119.9	135.4	136.0	132.7	148.9	12.9	0.4	-2.4	12.2
Soft drinks	104.9	102.0	122.6	106.0	119.8	-2.8	20.2	-13.5	13.0
Cigarettes and cigars	94.9	105.2	103.3	102.9	114.4	10.8	-1.8	-0.4	11.2
Yarns and fabrics of artificial fibres	205.2	215.7	237.5	238.7	269.4	5.1	10.1	0.5	12.9
Tyres and tubes	130.8	136.5	151.2	179.7	162.0	4.3	10.8	18.8	-9.8
Manures and fertilizers	147.8	151.5	155.9	160.6	172.8	2.5	2.9	3.0	7.6
Basic chemical products	127.8	142.4	134.7	141.9	147.2	11.4	-5.4	5.3	3.7
Artificial fibres	184.3	194.7	222.9	242.3	261.6	5.6	14.5	8.7	8.0
Cement	136.3	147.5	161.7	175.2	184.2	8.2	9.6	8.3	5.1
Automobiles	140.3	172.0	166.1	150.7	139.8	22.6	-3.4	-9.3	-7.2
Trucks	151.0	187.2	231.3	193.1	158.3	24.0	23.5	-16.5	-18.0

Source: CEPAL, on the basis of data supplied by the Banco de México S.A. and other official figures.

a/ Preliminary figures.

b/ These goods accounted for around 20% of the total value of manufacturing production in 1970.

/The iron

The iron and steel industry, whose installed capacity had been expanded considerably in 1976 when the Lázaro Cárdenas-Las Truchas plant came into operation, grew by nearly 7%, a higher rate than that of the previous year (5%). The relative lack of dynamism in this strategic sector was related to the contraction of the market due to the paralysation of the construction sector, and to a low level of activity in the sectors producing metal articles and the motor-vehicle industry. The labour conflicts which affected the activity of some enterprises were also of influence. The low level of domestic demand for iron and steel products took the form of an increase in the volume exported and was also manifested in the little use that was made of the installed capacity.

During the year the administrative reorganization of the three public enterprises producing iron and steel took place, when they merged into a single company called SIDERMEX.

It is estimated that the manufacturing industry was not affected by shortfalls in the supply of inputs, nor by the lack of financing, which increased during the year by nearly 40%. Medium and small industry and the enterprises producing basic articles received special attention in terms of credit.

In compliance with industrial policy, a series of important measures was adopted in 1977, outstanding among which was the liberalization of external trade by means of the gradual abolition of the advance permits required for the import of a considerable number of products. The decision to replace the quantitative controls by the tariff is in keeping with the economic policy which aims at reforming the protectionist structure of the industrial sector with a view to activating a more efficient development.

The use of import permits and secondly of the tariff as instruments to safeguard domestic manufacturing output vis-à-vis external competition, came to acquire importance in the course of three decades. However, the over-protection of industry which was necessary in a first phase of development, in the long run proved to be an inadequate instrument, particularly as the economic system became more complex. In the first stage of industrialization, protection stimulated capital formation in ensuring high profit levels for the entrepreneurs, but with the persistence

/of excessive

of excessive and indiscriminated protection, once certain industries were consolidated, distortions appeared in the structure of production when the horizontal spread of the apparatus of production was encouraged and high costs and prices existed alongside little international competition.

The measure to liberalize external trade adopted in 1977, together with the revision of the tariff system and the setting up of the Comisión de Aranceles y Controles al Comercio Exterior, may be considered the first steps towards modifying the protectionist machinery aimed at opening up the domestic market to some degree of competition which should take the form of a more efficient industrial sector.

Thus nearly half the 5,300 import fraction which at the end of 1976 were subject to control by the system of permits had been exempted. Other points of interest in the policy connected with the industrial sector were the re-establishment in selective form of fiscal stimuli to exporters of industrial products by means of the indirect tax refund certificates (CEDIS), which had been suspended on 8 September 1976 as a result of the devaluation of the peso, the granting of fiscal aid to small enterprises producing socially and nationally necessary goods, by means of a subsidy of up to 40% of the general tax on imports of machinery and equipment, and the concession of credits for income tax to a value of 10% of the investment in new machinery for industrial enterprises engaged in nationally or socially necessary activity.

Mention should also be made of the creation of the Comité Especial de Precios y Tarifas del Sector Público, which will aim at programming the development of the output of the State enterprises and will make recommendations on the prices and tariffs of the goods and services provided by them so as to avoid distortions in their financial structure.

(e) Construction

Following its decrease of 2% during 1976, the product of the construction industry again decreased by 3%. The poor performance by the sector was linked to the restriction on public expenditure - which was reflected in a decrease in investment <sup>6/</sup> - and to the reduction in the formation of private capital, which was affected by the smaller real demand and by the lack of adequate financing by the banks.

<sup>6/</sup> The public sector contributes more than 50% to investment in construction.



The drop in construction activity affected the industries producing inputs (iron and steel and non-metallic minerals). However, these in part offset the weakening of domestic demand by increasing their exports, especially of cement, which over the last year increased by slightly more than 400,000 tons to nearly 1,300,000 tons. On the other hand, since construction is a typically labour-intensive activity, its decline had strong adverse repercussions on the levels of employment.

### 3. The external sector

During 1977 the external sector substantially modified the performance which had characterized it in recent years. The deficit on current account - which reached its highest level in 1975, when it accounted for 65% of foreign exchange earnings for exports, and which during 1976 decreased by 16% - dropped in 1977 to slightly over half. Because of this, the balance on current account for that year only accounted for 23% of exports of goods and services (see table 8). The flow of short- and long-term capital, which increased vigorously during the present decade and in 1976 reached its highest level, dropped in 1977 to less than half. Gross international reserves, after decreasing by 315 million dollars in 1976, increased by 470 million in 1977.

These more favourable features of the balance of payments in 1977 were a result of the economic policy adopted during the year, the slow growth of economic activity, the increase in oil exports and the restrictions on the external market, and the devaluation of the peso which took place during 1976.

The reduction of the deficit on current account was in fact related to the increase in exports as well as to the reduction in imports. The latter was due to a large extent to the slow rate of growth of the overall product, the reduction of private investment, and the policy to restrict public expenditure.

Table 8  
MEXICO: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977a/
<b>Current account</b>						
Exports of goods and services	3 736	4 744	6 222	6 248	6 963	7 916
Goods FOB	1 881	2 419	3 443	3 464	3 979	4 781
Services	1 855	2 325	2 779	2 784	2 984	3 135
Transport	79	135	182	181	201	270
Travel	1 493	1 792	2 056	2 171	2 192	2 240
Imports of goods and services	4 016	5 236	7 765	8 625	8 349	7 666
Goods FOB	2 643	3 656	5 790	6 292	5 859	5 326
Services	1 373	1 580	1 975	2 333	2 490	2 340
Transport	179	292	439	527	532	490
Travel	870	953	1 154	1 359	1 441	1 330
Net payments of profits and interest on foreign capital	-700	-997	-1 447	-1 818	-2 173	-2 186
Profits	-435	-581	-794	-840	-916	-736
Interest	-265	-416	-653	-978	-1 257	-1 450
Net private transfer payments	54	66	100	114	136	150
Balance on current account	-926	-1 423	-2 890	-4 081	-3 423	-1 786
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	926	1 423	2 890	4 081	3 423	1 786
(a) Net external non-compensatory capital	1 214	2 184	3 687	5 571	5 724	
Direct investment	301	457	678	609	573	
Long- and medium-term loans	1 208	2 383	3 092	4 993	5 685	
Amortization payments	-609	-924	-640	-874	-1 179	2 256
Short-term liabilities	304	260	544	816	623	
Official transfer payments	10	8	13	27	22	
(b) Domestic non-compensatory capital or assets	-274	-666	-378	-62	-1 100	
(c) Errors and omissions	164	46	-381	-1 251	-2 187	
(d) Allocation of SDRs	42	-	-	-	-	
(e) Net compensatory financing						
(minus sign signifies an increase)	-220	-141	-38	-177	986	-470
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	671	
Amortization payments	-	-	-	-	-	
Variation in gross international reserves						
(minus sign signifies an increase)	-220	-141	-39	-177	315	-470
Foreign exchange reserves						
(minus sign signifies an increase)	-190	-154	-78	-229	17	
Gold reserves						
(minus sign signifies an increase)	12	13	41	-	200	
SDRs						
(minus sign signifies an increase)	-42	-	-1	52	98	

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;  
1977: CEPAL, on the basis of official data.

a/ Preliminary figures.

/The rate

The rate of growth of the quantum of exports (9%) was basically due to the increase in exports of petroleum by-products (53%), since the increase in the volume of the remaining products was very small (2%). This weak response by exports, following a change in parity of nearly 80% and an additional improvement in the earnings of the exporting sector as a result of the reintroduction of the indirect tax refund certificates, was affected by the decrease in the rate of economic activity of the industrialized countries and the increase of protectionist practices in them.

The devaluation of the peso had an adverse effect on the earnings generated by the sub-contracting enterprises and in frontier transactions. In the first of these cases, the increase in minimum wages in national currency which followed the devaluation in the main points of the northern frontier - 35% between August 1976 and December 1977 - because of the sharp rise in exchange rate became a decrease in dollar wages of around 26%. This in turn contributed to a reduction of 3.5% in earnings in foreign currency by the sub-contracting industries although there was an increase of 12% in the personnel employed in them. With regard to frontier transactions although it is a fact that the devaluation slowed the constant increase in outflows of currency, it is also true that in view of the low price-elasticity of external demand for national goods and services, the income generated by them was reduced, despite the drop in their prices expressed in dollars.

The reduction in the net inflow of capital from abroad - of which the public sector absorbs the greater part - was the result of an increase in amortization payments, which nearly doubled compared with 1976, and the payment of the short-term capital which had to be resorted to in order to cover the large outflow of capital which took place in the last months of the year.

(a) The current account

As has already been said, the situation of the current account improved appreciably in 1977 with the reduction of 48% in the deficit of the previous year. This favourable performance was the result of an increase of 20% in the value of exports of goods and a reduction in imports of around 9%. However, net earnings from the sub-contracting industries and frontier transactions dropped compared with the previous year (by 3% and 10%

/respectively) and

respectively) and income from tourism increased hardly at all. The rapid growth of payments of external capital in recent years slowed down, both because of the reduction of the growth rate of interest on official debts - which was 22% in 1977 compared with an average of nearly 50% during the period 1973-1976 - and because of the drop in the reimbursement of dividends abroad.

(i) Exports of goods. The 20% increase in the current value of exports of goods was linked to increases of more than 9% in their volume and in their prices (see table 9).

If, however, exports of crude oil are discounted, the growth rate of the quantum exported is considerably smaller. As has already been said, this very weak response to the modification of the exchange rate of the previous year may have been influenced notably by the restriction on external demand caused by the reduction in the rate of economic activity in the industrialized countries.

Exports of fuels and lubricants which had been acquiring momentum since 1974, increased by 67% in value and 53% in physical volume. As a result of this their relative share in the total value of exports increased from less than 17% in 1974 to 22% in 1977, and they became the main export products (see table 10).

A great many agricultural producers benefited from excellent international prices, which was why, despite the drop of 3% in the volume exported, the value in dollars generated by exports increased by around 14%. Sales of coffee beans increased by 27%, while their volume dropped by 36%. During 1977, both the volume (30%) and the value of exports of tomatoes increased sharply, while their markets were diversified, mainly because of the growth of exports to Canada.

Coffee and tomatoes would seem to occupy the second and third places respectively among the main export products; coffee generates 11% and tomatoes 6% of the total value of exports of goods. Exports of cotton decreased, however, both in volume and in value, because of a price drop in the second half of the year. Lastly, fruit, pulses and vegetables which in recent years had gained ground in external trade, once more increased both the volume and the value of their exports.

Table 9  
MEXICO: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977a/
	<u>Growth rates</u>					
Exports of goods						
Value	24.9	28.6	42.3	0.6	14.9	20.2
Volume	20.6	6.8	0.0	-2.6	1.6	9.3
Unit value	3.6	20.4	42.3	3.3	13.0	9.9
Imports of goods						
Value	21.3	38.4	58.4	8.7	-6.9	-9.1
Volume	17.8	18.5	21.7	-0.4	-10.4	-11.8
Unit value	3.0	16.8	30.1	9.0	4.0	3.0
Terms of trade	0.5	3.1	9.4	-5.2	8.7	6.8
	<u>Indexes (1970 = 100)</u>					
Terms of trade in goods	99.0	102.0	111.6	105.7	114.9	122.7
Purchasing power of exports of goods	124.1	136.5	149.3	137.7	152.1	177.5
Purchasing power of exports of goods and services	120.7	135.8	143.4	131.8	140.3	152.0

Source: CEPAL, on the basis of official data.

Table 10

MEXICO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars			Percentage breakdown		Growth rates	
	1975	1976	1977 <sup>a/</sup>	1975	1977	1976	1977 <sup>a/</sup>
<u>Total</u>	<u>2 993</u>	<u>3 433</u>	<u>4 170</u>	<u>100.0</u>	<u>100.0</u>	<u>17.7</u>	<u>21.5</u>
Agricultural and forestry products	673	951	1 081	22.5	25.9	41.3	13.7
Stock-raising and fisheries	215	283	342	7.2	8.2	31.6	20.8
Fuels and lubricants	467	553	922	15.6	22.1	18.4	66.7
Minerals	450	426	423	15.0	10.1	-5.3	-0.7
Manufactures	1 186	1 218	1 499	39.6	33.6	2.7	14.9
Others	2	2	3	0.1	0.1	-	50.0

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Preliminary figures.

/Although external

Although external demand generally restricted the volume of minerals exported, their performance in 1977 was uneven. Although during 1977 the export volume of sulphur, fluorite and zinc decreased, the value of exports decreased only in the case of the last-mentioned product. Copper, lead and salt, on the contrary, increased both the volume and the value of their exports. This meant that the overall value of exports of minerals nearly remained constant in current prices while the quantum decreased by around 16% (see table 10).

Despite the improvement in the relation between domestic and external prices owing to the effect of the devaluation of the peso and the reintroduction of the CEDIS, exports of manufactures showed a moderate growth of slightly over 7% in terms of quantum. The reduction in the domestic demand for some products, such as construction materials and cement, made larger exports possible while the decrease in domestic sales of motor-vehicles led to a slight drop in exports of vehicles and parts with the reduction in the export requirements to which the assembly plants are subject under the industrial integration policy.

Among manufactures with increased exports were by-products of the food industry (frozen strawberries, pineapple in syrup and processed pulses, vegetables and fruits), and among the manufactures whose exports decreased most were garments, cotton fabrics and manufactures of henequen.

(ii) Imports of goods. The value of imports of goods dropped by 9% and their quantum decreased by nearly 12% (see tables 9 and 11). This took place despite the large increase in the value of imports of consumer goods, mainly as a result of purchases of wheat and maize to offset the shortfall in national supply. During 1977, these imports accounted for 56% of external purchases of consumer goods, compared with 35% the previous year.

The quantum of imports of intermediate goods, however, dropped by 10% and imports of capital goods by 25%, mainly because of the slow growth rate of economic activity and the reduction in levels of investment.

As a result of the restrictive policy, the imports made by the public sector dropped by 4% and those of the private sector dropped even more sharply (12%) (see table 11).

Table 11

MEXICO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1974	1977	1975	1976	1977 <sup>a/</sup>
Consumer goods	802	921	291	508	13.2	9.3	14.8	-68.4	74.6
Intermediate goods		2 367	2 756	2 528	47.6	46.0		16.4	-8.3
Capital goods	5 255	2 892	2 555	2 092	28.2	38.1		-11.7	-18.1
Others		400	428	360	11.0	6.6		8.2	-14.4
<u>Total</u>	<u>6 057</u>	<u>6 580</u>	<u>6 030</u>	<u>5 488</u>	<u>100.0</u>	<u>100.0</u>	<u>8.6</u>	<u>-8.4</u>	<u>-9.0</u>
Public sector	2 202	2 498	2 155	2 065	36.4	37.6	13.4	-13.8	-4.2
Private sector	3 855	4 082	3 875	3 423	63.6	62.4	5.9	-5.1	-11.7

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Preliminary figures.

/(iii) Tourism.



(iii) Tourism. The net surplus in tourism increased by 18% as a result of a sharp drop in outflow of currency (15%). This was mainly due to the modification of the exchange rate and to a lesser extent to the low level of economic activity. Earnings increased by slightly over 2%, far below the 19% achieved on average during the period 1970-1974. Furthermore, in 1977 tourists showed a tendency to cut down their average stay from 11.3 days in 1976 to 10.4 days. However, average daily spending increased by nearly 8% compared with 1976, and reached 25.6 dollars per person per day. The number of tourists, however, only increased by 4%. This slowing down in tourist activities despite the lowering of costs implied in the devaluation, was to be explained in part by the economic situation in the United States. It is, however, estimated that the investment of 5,400 million pesos programmed in tourism over the next two years will make it possible to stimulate this activity.

(b) The capital account

During 1977, the characteristics of the capital account varied compared with those of 1976. Net inflows of capital in the short- and long-term, which during the decade had been increasing to varying degrees dropped sharply and for the first time (54%); the outflow of capital not stated in the balance of payments, which had begun in the last months of 1975 and had acquired considerable impetus in 1976 when it reached more than 2,500 million dollars, stopped and reached only slightly over 200 million dollars. Gross international reserves, which in 1976 had dropped by 315 million dollars, increased in 1977 by 470 million.

The public sector, which had become the main user of the foreign credit in the short- and long-term, reduced its demand in 1977 in accordance with the policy to contain the expansion of the fiscal deficit and reduce external indebtedness.<sup>7/</sup> External long-term financing of the public sector therefore decreased by 8% when amortization payments doubled and exceeded the moderate increase (15%) of the measures. Owing to the high rate of

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<sup>7/</sup> It should be borne in mind that during the year the pressures which before and after the modification of the exchange rate had obliged the private sector to have recourse to external credit on large scale ceased.

amortization and the interest accrued, the servicing of the debt increased by 60% compared with the previous year and amounted to nearly 3,900 million dollars. The servicing of the debt accounted for 50% of the income in current account - the highest in the present decade - since it had been only 18% in 1974 (see table 12).

As a result of the restructuring of the public debt, short-term liabilities which had increased by 840 million dollars in 1976 decreased by 950 million in 1977, thus modifying the structure of the external private debt of which liabilities came to account for 12% compared with 19% the previous year.

As a result of the slow growth of economic activity and the reduction in the speculation stemming from the modification of the exchange rate, external financing for the private sector decreased by nearly 360 million dollars, while in 1976 it had increased by 800 million. Direct foreign investment decreased by nearly 15%; the long-term credit of enterprises with foreign investment decreased by slightly over 60%, and that of other enterprises more than doubled capital outflow. With regard to short-term capital, the change was drastic since liabilities which had increased by 580 million dollars in 1976 dropped by 280 million in 1977.<sup>8/</sup>

(c) External trade policy

During 1977, the external trade policy had basically two objectives: to promote exports, giving special importance to exports of manufactures, and to reduce the control of imports with a view to liberalizing external trade in the medium-term.

Among the methods aimed at strengthening exports of manufactures was the reintroduction, as from 1 April, of the direct tax refund certificates (CEDIS), which had been suspended when the exchange rate of 12.50 per dollar was abandoned. The new régime for granting these certificates included some important changes, among which was the reduction from 40% to 30% of the content of national origin required to obtain this incentive and the annual increase in exports as a basis for granting the refund.

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<sup>8/</sup> On the basis of data from the Informe Anual 1977 of the Banco de México, S.A.

Table 12  
MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS  
(Millions of dollars)

	1972	1973	1974	1975	1976	1977a/
<b>Balance of external public debt</b>						
<b>Total</b>	<b>5 065</b>	<b>7 070</b>	<b>9 975</b>	<b>14 449</b>	<b>19 600</b>	<b>22 912</b>
<b>Medium- and long-term</b>	<b>4 322</b>	<b>5 732</b>	<b>7 981</b>	<b>11 612</b>	<b>15 923</b>	<b>20 185</b>
Agricultural activities	6	101	190	704	1 418	1 888
Energy	1 688	2 064	2 918	4 223	5 091	6 685
Industry	556	764	1 055	1 839	2 711	3 174
Transport and communications	495	995	1 225	1 479	1 721	1 909
Construction	33	124	216	317	496	692
Other activities	320	473	602	1 039	1 102	1 701
Federal government	824	1 211	1 775	2 011	3 384	4 137
<b>Short-term</b>	<b>742</b>	<b>1 339</b>	<b>1 994</b>	<b>2 837</b>	<b>3 677</b>	<b>2 727</b>
Agricultural activities	389	521	852	521	756	684
Energy	14	157	65	291	394	87
Industry	216	274	456	606	1 638	684
Construction	21	22	29	6	126	173
Other activities	103	365	592	1 413	1 363	1 099
<b>Servicing of external debt</b>						
<b>Total</b>	<b>767</b>	<b>1 224</b>	<b>1 150</b>	<b>1 657</b>	<b>2 419</b>	<b>3 837</b>
Interest payments	262	379	589	851	1 266	1 542
Amortization payments	505	845	561	806	1 153	2 295
<b>Servicing of external debt as a percentage of exports of goods and services</b>						
	<b>21</b>	<b>26</b>	<b>18</b>	<b>27</b>	<b>35</b>	<b>48</b>

Sources: CEPAL, on the basis of figures supplied by the Ministry of Finance and Public Credit and the Banco de México.

a/ Preliminary figures.

/With regard

With regard to imports, measures were adopted in connexion with a large number of tariff fractions of the general import tariff, liberalizing them from the requisite of a prior import permit.<sup>9/</sup>

Among the most important trade agreements was that with the United States towards the end of the year, governing trade to a value of around 100 million dollars, and preferential tariff treatment with scaled tax reductions in six stages for Mexican products. Mexico will mainly sell fruit and pulses, and import precision instruments, engines, proteins, vegetable products and tools. Unlike what usually happens with the Generalized System of Preferences of the United States, the concessions obtained cannot be suspended unilaterally.

#### 4. Prices and wages

##### (a) Prices and the anti-inflation policy

During 1977, a moderate increase in prices, larger than that of the previous year, was recorded. On average, the national consumer price index rose by 29.1% compared with 15.8% in 1976, while the wholesale price index in Mexico City practically doubled its annual average variation when it increased from 22% in 1976 to 41.2% in 1977 (see table 13). This trend may be attributed in part to the devaluation of the Mexican peso, which became a mechanism for propagating the increase in prices initiated years before. Although the main repercussions of the devaluation were felt in the last four months of 1976, they continued until after the first half of 1977, although with less intensity.

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<sup>9/</sup> As from 25 May, the Comisión de Aranceles y Controles al Comercio Exterior came into operation in order to study, project and propose general criteria and specific measures in connexion with tariffs, and recommend the relevant modifications in controls on the imports and exports of goods.

Table 13

MEXICO: EVOLUTION OF PRICES AND WAGES

	1973	1974	1975	1976	1977
<u>Annual averages (1970 = 100) a/</u>					
Wholesale price index in Mexico City	123.4	151.2	167.1	204.3	288.4
Consumer articles	123.9	152.8	170.6	208.0	295.0
Food	124.6	155.3	174.7	208.2	292.6
Non-food	122.0	146.7	158.0	207.4	300.2
Articles for production	122.7	148.4	162.1	198.2	277.8
National consumer price index	124.0	153.4	176.4	204.3	263.8
Food, beverages and tobaccos	126.1	163.8	184.4	207.9	267.3
Clothing, footwear and accessories	132.3	155.9	178.1	214.5	287.9
Gross rents, fuels and street-lighting	120.7	134.1	153.3	180.7	219.1
Real minimum wage index	99.8	112.9	113.7	123.6	122.4
<u>Annual average variation</u>					
Wholesale price index in Mexico City	15.7	22.5	10.5	22.2	41.2
Consumer articles	14.8	23.3	11.4	22.2	41.8
Food	15.5	24.6	12.5	19.2	40.5
Non-food	13.1	20.2	8.2	30.6	44.7
Articles for production	17.9	20.9	9.2	22.3	40.2
National consumer price index	12.0	23.7	15.0	15.8	29.1
Food, beverages and tobaccos	15.8	29.9	12.6	12.7	28.6
Clothing, footwear and accessories		17.8	14.2	20.4	34.2
Gross rents, fuels and street-lighting		11.1	14.3	17.9	21.2
Real minimum wage index		13.1	0.7	8.7	-1.0
<u>Variation December to December</u>					
Wholesale price index in Mexico City	25.2	13.3	13.4	45.9	18.1
Consumer articles	23.8	15.3	14.2	41.5	23.5
Food	26.3	15.6	15.3	36.8	25.4
Non-food	17.9	12.2	11.3	38.3	21.0
Articles for production	27.6	10.1	12.0	53.3	9.7
National consumer price index	21.3	20.6	11.3	27.2	20.7
Food, beverages and tobaccos	27.5	23.1	10.1	22.2	21.6
Clothing, footwear and accessories		16.4	12.4	37.1	24.5
Gross rents, fuels and street-lighting		9.5	15.0	20.0	25.0
Real minimum wage index		...	...	16.3	-10.2

Sources: CEPAL, on the basis of data supplied by the Banco de México, S.A. and the National Commission on Minimum Wages.

a/ Original base year: consumer prices, 1968; wholesale prices, 1954 and minimum wages, 1970.

/The evolution

The evolution of prices between December 1976 and December 1977, however, showed a tendency to slow down. During this period consumer prices increased by 20.7%, a rate lower than the 27.2% recorded in 1976, and wholesale prices reduced their growth rate from 45.9% in 1976 to 18.1% in 1977.<sup>10/</sup>

The smaller increase in prices during 1977 should be attributed basically to the progressive disappearance of the direct effects of the modification of the exchange rate and the decrease in domestic demand as a result of the low rate of dynamism seen in a great part of economic activity, and especially the restrictive nature of the wage policy and public expenditure. The freezing of prices of goods and services of public enterprises with a large multiplier effect (electrical energy and petroleum by-products) also had its effect. Lastly, the moderate increase in the guarantee prices of the main basic agricultural products for domestic consumption also contributed to containing the growth of prices, although it had adverse effects on the supply of these goods.

The items of the national consumer price index which grew more than the general average were: foodstuffs, beverages and tobacco (21.6%); clothing, footwear and accessories (24.5%), and rents, fuels and street-lighting (25%). With regard to foodstuffs, the most notable prices-increases were in soft drinks, fruit, coffee, and especially milk, bread and eggs which are of great importance in consumption. The index was also affected by the rise in cigarettes, sugar and tortillas, which was authorized at the end of 1976 and thus affected prices in 1977.

With regard to rents - which in 1976 increased less than the general index - their sharper increase during 1977 was the effect of the delay in their response to the impact of inflation, because in order to increase rents fixed-term contract modifications are required. The increases in the land tax also affected this item.

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<sup>10/</sup> This difference in performance may be explained by the fact that in 1976 the most important price increases took place in the last months of the year, so that they only moderately affected the average increase in prices. However, since 1977 began with a high index level, and since during the entire year there were continuing increases in prices - although less intensive than in the last months of the previous year - the annual variation more than exceeded that of 1976.

Telephone and federal road and bridge tariffs and the price of liquid gas also increased considerably; however, gasoline continued to be sold at a price below the international one.

In consumer prices, the most important increase occurred during the first quarter of the year (when more than one-third of the annual increase in these prices took place); they then slowed down during the second quarter with a further rise during the third quarter and lastly, a loss of dynamism during the fourth quarter despite the traditional end-of-year increases.

In wholesale prices, the most important increases were in consumer articles, and in particular, non-processed foodstuffs (28.9%) and household articles (36%). Manufactures, however, increased moderately (9.7%) in contrast to their sharp increase the previous year (53.3%).

During 1977 there was an important turnabout in the price policy tending towards liberalization. In the middle of the year, as a first attempt, Government control over prices and production quotas in the motor-vehicle industry was abolished.

In October, the Decree which provided for the creation of the Comisión Nacional de Precios 11/ revoked the decrees of 1974 and 1976; these had constituted the backbone of the national system of price control and indicated maximum limits for the prices of 273 articles and three services. Once this ceiling was abolished, only 64 lines of products for industrial consumption remained under control; the rest were liberalized as from 1 February 1978. These measures, and others which affect the industrial sector (reduction in tariff protection and abolition of import permits), were inspired by the aim of reestablishing the free play of supply and demand within specific limits, and by reducing State intervention in some areas.

Among the short-term measures aimed at slowing down inflation, the Government tightened up its contacts with the entrepreneurial sector. 12/

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11/ A body whose basic function will be to study and propose maximum prices for articles of general consumption.

12/ A decree of January 1977 established a series of stimuli for the production and distribution of 90 basic consumer products. Although, despite the stimuli offered, the reduction in the prices of the basic commodities would affect the profit margin of producers and distributors, this drawback could be obviated by increasing the prices of non-basic commodities. Of the 90 basic articles, the measure took effect on 37, prices of which dropped by 10%.

(b) Wages and employment

In 1977 two circumstances came into play which affected broad layers of the population - the stagnation in economic activity led to a reduction in employment and the wage policy took the form of a decrease in wages in real terms.

The drop in employment was reflected in an increase in the rate of open unemployment - which preliminary estimates give as more than 9%, exceeding the rate of nearly 7% recorded the previous year - and an increase in underemployment - which according to partial indicators affected 46% of the economically active population in 1977.<sup>13/</sup>

Manufacturing, which could have been a key sector for the absorption of surplus manpower in the agricultural sector, had its capacity to generate employment reduced by a 1.6% cut in the personnel employed.

The industries in which this phenomenon was most in evidence were the manufacture and repair of motor vehicles (-15.6%), the construction and repair of railway equipment (-13.6%), the manufacture of tyres and tubes (-4.1%), and yarns and fabrics (-3.6%). Unemployment was also influenced by the crisis in the construction sector.

With regard to wages, the policy varied in 1977 compared with that observed in previous years - when the objective was to bring the purchasing power of the workers up to the level of the price increase - and became an instrument to contain inflation on the basis of restrictions on wage readjustments and the weakening of real demand. The application of this type of policy was possible owing to the structure and mode of operation of the trade union apparatus, and also because the increase in the rate of underemployment and unemployment became more pronounced during the year and resulted in an increase of labour supply.

As a consequence of the above, in January 1977 minimum wages rose 10% in the strata where remunerations were less than 100 pesos per day and 9% in those receiving a larger sum. The increases in the wages of

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<sup>13/</sup> Data obtained from an interview in the Secretariat of Labour and Social Security, Department of the Public Employment Service.



trade union workers <sup>14/</sup> fluctuated around these percentages and never exceeded 15%.

Since the increase in prices was much more pronounced between December 1976 and December 1977, real wages decreased by 10%. Taking annual averages, however, the reduction in real minimum wages was only 1% (see table 13).

## 5. Fiscal policy

### (a) Monetary policy

The subordination of the exchange policy to the process of creating and consolidating new growth patterns was reflected - in present circumstances when there were still tensions and adjustments of forces unleashed when the fixed exchange rate was abandoned - in the maintenance of the regulated floating system of the exchange rate and the gradual removal of inflexibilities in other economic orientation, machinery and instruments, such as interest rates and the traditional methods of controlling money supply.

As a result of the course chosen, and the attitude of mistrust with regard to the peso in the first months of 1977, and in view of the implications which a traditional tendency for liquidity to expand would have had in this seriously unstable situation in the country in the last months of 1976 and the early months of 1977, monetary policy occupied a noteworthy place in the implementation of Government programmes. It should also be pointed out that from another standpoint its role was reinforced by the establishment of closer co-ordination with fiscal policy.

Vis-à-vis the cautious increase in money wages and in view of the persistent lack of reaction of private investment, an endeavour was made to reduce the inflationary repercussions of the 1976 devaluation by attempting to discourage transfers of income which might have adverse effects on the strata with least resources which could affect the system of wages agreed upon with the labour sector.

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<sup>14/</sup> The economically active population which receives minimum wages (around 2 million persons) is made up of free workers or workers who do not belong to any workers' organization. The wages of the trade union workers are governed largely by the collective work contracts negotiated in the course of the year.

It is, however, probable that there was an underestimation of the capacity of domestic credit to expand the supply of jobs or incentivate production by means of monetary support to enterprises which in many sectors had been affected by fairly considerable problems of liquidity. The figures mentioned below confirm that during the first half of the year the financial block became extremely substantial in some cases, although it should be recalled that it was not easy to encourage a very flexible supply of credit in view of the fact that the system of financial intermediation lost importance and the public tended to reduce their investment in national currency.

In a broader perspective, the monetary policy system tried out in 1977 should be described as an endeavour to reach a closer link between the process of real investment and the availability of resources from the real savings of the population or external investors, by simultaneously building-up the capacity of the financial intermediation apparatus on a large scale.

During 1977, various measures and activities were put into practice; they tended in particular to conserve stability - particularly by reducing the pressure of public expenditure on the expansion of primary money - and also to achieve a more efficient performance of the typical functions of intermediation by the banking system; an endeavour was also made to establish a clear differentiation between the money and capital markets and to encourage the largest possible inflow of capital to the banking system, simultaneously attempting to steer towards national currency the domestic savings which had been tending towards assets in foreign currency. Although these priorities were a constant of the policy followed throughout the year, they combined with other types of activities which tended to expand more in terms of financing, which only emerged in the last quarter, as the difference created between the community's saving potential and the availability of resources in banking circles could be narrowed.

Important among the first type of measures was the issue of petro bonds and silver coins 15/ and the arrangements regarding the cash reserves of the

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15/ Which also should be considered as a means of tapping the resources available in foreign currency.

banking system made in the first four months. These measures were not simply a means of regulating the financing of the Government's overall deficit based on pre-existing monetary resources and aimed at reducing potential inflationary tensions; as the marginal rates were simplified and the average rate reduced, the readjustment made tended above all to make this procedure of regulating monetary supply more flexible and to give rise to some extent to a more immediately available credit in the economy.

Although they did not come into operation in 1977, mention should be made of the creation of treasury certificates, an instrument which is already in 1978 making it possible to carry out open market operations and facilitate non-inflationary resources to the Federal Government, and act as an indicator of the level of the discount rate in the market.

With regard to the strengthening of the financial system, the measures adopted should be considered in conjunction with other parallel objectives which, generally speaking, tend to increase bank savings (especially in national currency) and to strengthen the inflow of loanable funds to the system. During the month of May the system of interest rates was revised as a form of repairing the damage caused by inflation in investors' earnings, and a procedure was laid down for converting money and mortgage bonds in circulation into term deposits with interest rates which varied according to the period of duration of the deposit. Ceilings were established for the interest rates, making it possible for the conditions of supply and demand to determine the real levels in such operations. Similarly, in the measures aimed at intensifying savings in pesos, specifically with regard to the gradual elimination of the money and mortgage bonds, the criterion which prevailed was to rectify the lack of an adequate differentiation in the financial system between the money and capital markets. This problem made it difficult for the authorities to be able to channel savings towards long-term financing. The measure of restricting the reception of dollars in deposit to the finance departments only may also be included among these general objectives.

The ideas adopted to stimulate the inflow of external funds - apart from those tapped by means of foreign bank credits - and to reduce as far as possible speculation in the exchange market, basically consisted in linking the interest rate on the term deposits to that of the London eurodollar market - situating it daily 1% above the rate established in this market - and transferring to the Banco de México the exchange risk implicit in loans in national currency effected from deposits made by the borrower himself in foreign currency. This latter mechanism tended to reduce the scarcity of credit in national currency.

Although it is true that the progressive expansion of credit reflected the recovery taking place in the liabilities of the banking system, it is equally true that some measures taken by the Banco de México speeded up this process in part as the priority aim was achieved. In addition to the instruments mentioned, the Banco de México granted facilities to the banks of the system to pay the special loans which had to be made so as to deal with the severe crisis of the withdrawals at the end of 1976; they were also to reduce the cash reserve corresponding to the deposits in national currency - jointly with the increase in the reserves in foreign currency - with a view to liberating funds to attend to medium and small industry, and to create a line to attend to the demand for credit for basic commodities.

The total resources tapped by the banking system increased during 1977 at a rate of 27%, discounting the effect of the revaluation of the exchange rate. This increase, higher than that of 24% recorded in 1976, conformed to the noteworthy increase in the procurement achieved by private and semi-public institutions (35.5%) which participate with around 50% of the system's total procurement and which in 1976 had only achieved an increase of 6% (see table 14).

If tapping is analysed, by type of currency, it may be seen that in national currency it increased in 1977 at a rate of 27%, while in foreign currency, still discounting the effect of the revaluation of the exchange rate, it increased at a rate of 29%.

Table 14  
MEXICO: PROCUREMENT OF RESOURCES AND FINANCING OF THE BANK SYSTEM a/

	Balance at the end of each year (billions of pesos)					Growth rates			
	1973	1974	1975	1976 <u>b/</u>	1977 <u>b/c/</u>	1974	1975	1976 <u>b/</u>	1977 <u>b/c/</u>
<u>Total</u>									
Procurement <u>d/</u>	317	380	480	595	758	20.0	26.1	23.9	27.4
Financing	302	373	477	596	753	23.5	27.7	24.8	26.3
Other assets and liabilities	15	7	3	-1	5				
<u>National institutions</u>									
Procurement <u>d/</u>	86	110	143	198	246	28.1	29.8	38.0	24.5
Financing	89	114	150	199	262	27.3	31.4	32.7	31.5
Other assets and liabilities	-3	-4	-7	-1	-16				
<u>Banco de México S.A.</u>									
Procurement <u>d/</u>	37	45	55	98	107	21.7	22.0	78.0	8.9
Financing	87	118	160	209	255	37.0	35.3	30.2	22.2
Other assets and liabilities	-50	-73	-105	-111	-148				
<u>Private and semi-public institutions</u>									
Procurement <u>d/</u>	194	225	282	299	405	16.0	25.1	6.1	35.5
Financing	126	141	167	188	236	11.7	18.3	12.7	25.4
Other assets and liabilities	68	84	115	111	169				

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A.

a/ Excluding inter-bank operations.

b/ These figures exclude the effect of modifications to the exchange rate.

c/ Preliminary figures.

d/ Excludes results, reserves and other liabilities.

/The situation

The situation changes if instead of taking into account the total liabilities in national currency, only non-monetary procurement in pesos is considered (factors of absorption of the monetary balance), and if from procurement in foreign currency are deducted the loans by foreign banks to credit institutions in order to study more clearly the behaviour of the public. With these data it may be seen that non-monetary procurement in pesos increased by 27% in 1977, while in dollars it amounted to slightly over 71% (see table 15). There was thus a change (from 16% to 20.5% between 1976 and 1977) in the share of foreign currency in the total resources tapped by the banking system.

It should, however, be made clear, that although the process of conversion to dollars of the economy continued in 1977, it is also true that this process lost impetus in the last months of the year, while it was considerably less than in 1976, when the factors of absorption in dollars increased nearly 120% while those in national currency increased by barely 0.3% compared with the balance of the previous year.

If the total tapping of resources throughout 1977 is analysed, it may be seen that during the first quarter the inflow of funds increased at monthly rates of nearly 3%, while the inflow in national currency showed a slightly downward trend. These increases, combined with the lack of dynamism of the financing conceded by the banking system during the quarter, would explain in part the reduction in the money supply, and must have contributed to slowing down the increase in consumer prices. The national consumer price index did indeed undergo a reduction in growth from 3.2% in January to 1.7% in March, partly because pressure on the supply of goods and services had been reduced with the channelling of the purchasing power of private persons towards the acquisition of assets in foreign currency and to a lesser extent in pesos.

The decreasing trend in the procurement of national currency lasted until April and May, and then there was a fairly regular increase for the rest of the year. This process was considerably influenced by the series of monetary and credit policy measures adopted by the Central Bank, the main objective of which was to increase the procurement of pesos and avoid flooding the system with dollars.

Table 15

MEXICO: MONETARY BALANCE

	Balances at end of each year (billions of dollars)					Growth rates			
	1973	1974	1975	1976 <sub>a/</sub>	1977 <sub>a/b/</sub>	1974	1975	1976	1977 <sub>b/</sub>
<u>Money</u>	80	97	118	155	195	22.0	21.3	30.9	26.2
Currency outside banks	34	43	52	80	88	24.9	22.4	52.8	10.2
Deposits on current account	46	54	66	75	107	19.9	20.5	13.5	43.3
<u>Factors of expansion</u>	275	329	412	478	627	19.6	25.1	16.1	31.1
Domestic credit	303	374	477	596	753	23.5	27.7	24.8	26.3
Government	109	143	191	249	323	31.0	33.5	30.6	29.6
Enterprises and individuals	194	231	286	346	430	19.4	24.1	21.0	24.0
International reserves	17	17	19	18	29	3.0	9.9	-5.9	59.3
<u>Less: Bank loans from the exterior     to credit institutions c/</u>	14	62	84	136	155	40.5	36.3	60.3	13.9
<u>Factors of absorption</u>	193	221	277	304	408	14.4	25.3	9.8	34.1
National currency	177	204	254	255	324	15.1	25.1	0.3	27.0
Savings deposits	17	20	24	25	35	20.4	19.6	5.5	40.6
Fixed interest instruments	118	141	186	166	188	18.8	32.0	-10.8	13.7
Other non-monetary liabilities	42	43	45	65	101	2.3	5.2	43.2	55.7
Foreign currency	17	18	23	19	84	7.2	27.0	117.4	71.3
Checking and savings accounts	6	5	6	13	17	-11.0	10.9	128.2	35.4
Bonds and debentures	4	3	7	24	43	-3.9	104.0	242.5	82.6
Other non-monetary liabilities	7	9	10	12	24	26.7	7.8	25.4	86.6
<u>Other assets and liabilities (net)</u>	-2	-10	-16	-19	-24				

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A.

a/ Excluding the effect of the modification of the exchange rate in 1976 and 1977.

b/ Preliminary figures.

c/ These loans are considered as a factor of negative expansion, since they are resources which for the most part directly finance credit to the government.

/Despite this,

Despite this, liabilities in dollars continued to increase rapidly until the month of August, when their growth dropped during the rest of the year as can be seen from the fact that between January and August around 90% of the total of dollars for the year were tapped.

This development in the tapping of national and foreign currency meant that totals increased as from the month of June, coinciding with the increase in financing channelled through the banking system - which between June and December accounted for approximately 80% of the annual total - and with the attenuation of the inflationary process which could be observed as from May, except in the months of August and September.

Total financing increased in 1977 at a rate of 26% (discounting the revaluation due to the modification of the exchange rate) (see table 14). Of this increase, around 40% corresponded to the Government which, as in the two previous years, showed a growth rate higher than that of the financing received by enterprises and private persons. As may be seen from table 15, the financing received by the Government increased by 30%, while that received by enterprises and private persons increased by 24%.

Although the increase in financing in 1977 was greater than in 1976, its importance throughout the year was fairly irregular, since a sharp drop was to be observed in the first half of the year, a moderate reduction in the following three months, and a notable expansion in the last quarter of the year.

During the first half of the year, financing increased around 8% in terms of the balance at the end of 1976, while wholesale prices increased by 12.5% and consumer prices by 11.2%. At the end of the third quarter, credit already showed a dynamism which made possible to attenuate the disparity between its growth and that of prices (up to September credit increased by nearly 15%, while prices rose by nearly 17%); in the last quarter financing grew notably, with the result that its increase (26.3%) was ultimately larger than that of wholesale and consumer prices (wholesale prices increased by 18.1% and consumer prices by 20.7%).

It may however be said that the financing granted in 1977 was restrictive, if the annual averages both of financing and of prices are considered, since while the annual increase in financing was 23.2%, wholesale

/prices increased



prices increased on average by 41.2%, which added to the real growth of the product (2.5%) would give a nominal increase of the order of 44%, nearly doubling the increase in financing already referred to.<sup>16/</sup>

With regard to international reserves and loans by foreign banks to credit institutions, it may be seen that the former increased by nearly 60% in 1977 in contrast to the reduction of 6% of the previous year, while loans by foreign banks to credit institutions - which are considered as a negative factor of expansion since they are resources the majority of which directly finance Government credit - only increased by 14.1% when in 1976 they had grown by 60%, without taking into consideration the effect of the revaluation of the exchange rate (see table 15).

In view of the above, during 1977 the factors of monetary expansion increased by 31% as a result of the increase in banking credit (26%), the recovery of the international reserves (59%) and the limited growth of loans by foreign banks to credit institutions (14%). The factors of monetary expansion thus increased less than the factors of contraction (34%), and the result was an increase of 26% in the money supply. This increase was in its turn less than that of 31% recorded in 1976, which was to contribute to the drop in the growth of the price indexes of December 1976 to December 1977.

According to the fragmentary information available, among the economic activities which most benefited from bank financing during 1977 were trade, agricultural activities and processing industries. The credit received by these sectors between December 1976 and December 1977 increased at rates of 43% for trade, 42% for agricultural activities, and 39% for processing industries (all of these far above the increases of the previous periods) (see table 16).

(b) Fiscal policy

Public expenditure slowed down notably in 1977, and with the increase in current earnings this meant that the budgetary deficit of the Federal Government became stabilized at the absolute level achieved the year before.

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<sup>16/</sup> This percentage is less drastic if the calculations are made on the basis of consumer prices, where the combined increase of consumer prices and the product is 31.6%.

Table 16

MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES AND INDIVIDUALS <sup>a/</sup>

	Balance at end of period (billions of pesos)				Growth rates			
	1974	1975	1976 <sup>b/</sup>	1977 <sup>b/</sup>	1974	1975	1976	1977
<b>Total</b>	<b>203</b>	<b>246</b>	<b>295</b>	<b>385</b>	<b>21.6</b>	<b>21.6</b>	<b>19.6</b>	<b>30.5</b>
Primary activities	37	42	49	95	30.4	14.3	16.7	40.4
Agricultural	34	38	44	63	29.6	12.6	16.5	42.4
Mining and others	3	4	5	6	41.4	34.9	19.6	20.6
Industry	93	115	132	171	18.4	23.5	15.0	29.4
Energy	16	16	17	17	-7.5	-2.4	5.8	-0.6
Manufacturing	56	71	88	122	30.2	28.3	23.5	38.9
Construction	21	28	27	32	16.0	31.1	-1.4	17.5
Public housing	6	7	9	9	8.7	20.2	20.2	-0.4
Services and other activities	31	40	59	70	17.6	29.0	47.3	19.9
Commerce	36	42	46	66	28.4	17.9	8.4	43.1

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Includes enterprises owned by the public and private sectors.

<sup>b/</sup> Excludes the effect of the modifications to the exchange rate.

/Excluding the

Excluding the amortization of the debt, the total expenditure of the Federal Government increased by 29% at current prices, which represented a drop in real terms if the effect of the price increases is left out (see table 17).

Current expenditure, however, increased by 39%, especially as a result of the growing importance of interest (owing to the accumulated effect of indebtedness and the revaluation resulting from the new exchange rate) and of transfers, which increased by 44% and 55% respectively. Expenditure on administration increased by only 23%, however, which meant a reduction in real terms, excluding the effect of the prices.

The heavier constraint on expenditure was seen in net capital expenditure which barely increased by 9% at current prices.

Current income showed a notable increase (40%), mainly because of the automatic expansion of assessable income owing to the increase in prices and to a lesser extent the growth of economic activity and the changes made in some direct and indirect taxes.

Among the most important fiscal changes were the establishment of an additional tax on the extraordinary gross profits of commercial and industrial enterprises and the heavier taxation on luxury consumption.<sup>17/</sup> The tax system of PEMEX on the production of petroleum and its by-products was also modified. The modifications on the system of income tax on physical persons include the deduction of taxes from incomes of less than 7 thousand pesos.

The rise in income from external trade (64%) as a result of the higher levels achieved by exports as a consequence of the new exchange parity and the improved international prices of some products also contributed to increase current income.

Income from direct tax collection increased by 41% (whereas in 1976 it had increased by only 33%) and indirect taxes recorded an increase of 38% (far higher than the 23% recorded in 1976).

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<sup>17/</sup> This was done by increasing the rates of taxes on such goods as cars and their accessories, motorcycles, precious stones, fur clothing, cut cristal, beers and other alcoholic beverages.

Table 17  
MEXICO: ACTUAL BUDGET INCOME AND EXPENDITURE OF THE FEDERAL GOVERNMENT

	Billions of pesos					Growth rates			
	1973	1974	1975	1976	1977 <sup>a/</sup>	1974	1975	1976	1977 <sup>a/</sup>
Current income	52.2	72.0	102.6	134.1	188.2	37.9	42.5	30.7	40.4
Tax	48.0	67.2	96.2	125.0	177.3	40.1	43.1	29.9	41.9
Direct <sup>b/</sup>	27.0	36.8	49.8	66.3	93.1	36.4	35.2	33.1	40.6
Indirect	17.1	25.4	37.5	46.2	63.7	47.9	48.1	23.0	37.9
Foreign trade	3.9	5.0	8.9	12.5	20.5	31.1	75.8	41.1	64.3
Non tax	4.2	4.8	6.4	9.1	10.9	12.6	33.6	43.0	19.1
Current expenditure	48.0	68.2	92.6	125.5	173.9	42.1	35.7	35.6	38.5
Administration	21.7	28.4	43.6	57.0	70.0	30.9	53.4	30.7	22.8
Interest <sup>c/</sup>	7.3	10.7	13.0	22.7	32.8	46.2	21.7	74.9	43.8
Transfers and other current expenditure	19.0	29.1	36.0	45.8	71.1	53.3	23.5	27.4	55.5
Saving on current account	4.2	3.8	10.0	8.6	14.3	-10.2	166.3	-14.8	67.9
Net capital expenditure <sup>d/</sup>	31.6	35.0	52.1	64.5	70.6	10.7	48.8	23.9	8.9
Real investment	20.8	22.0	34.3	39.7	...	5.7	56.0	15.7	...
Financial investment	4.2	5.5	7.3	13.7	...	29.5	32.7	87.8	...
Liquidation of previous debts	8.0	8.1	10.8	12.5	12.4	2.4	32.7	15.9	-0.7
Other capital expenditure (net)	-1.4	-0.6	-0.3	-1.4	...	-	-	-	-
Total expenditure <sup>d/</sup>	79.6	103.2	144.7	190.0	244.1	29.6	40.1	31.4	28.5
Actual budgetary deficit <sup>d/</sup>	27.4	31.2	42.1	55.9	55.9	13.9	34.6	33.1	-0.1

Source: CEPAL, on the basis of figures supplied by Banco de México, S.A.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Includes outlays for work.

<sup>c/</sup> Includes expenditure in connection with the debt.

<sup>d/</sup> Excludes debt amortization but includes the liquidation of fiscal debts from previous years.

/The results

The results of the income and expenditure policy adopted reflect the considerable increase in savings on current account which rose by 68%, inverting the decrease of 15% of the previous year.

In contrast with the rapid increase which the real budgetary deficit of the Federal Government had shown over the previous five years, in 1977 it became stabilized around 56 thousand million pesos, and the deficit dropped to 3.5% of the gross domestic product after reaching 4.2% in 1975 and 4.6% in 1976.

According to the preliminary data available,<sup>18/</sup> the public sector - which includes the Federal Government, the enterprises and agencies whose budgets are controlled and uncontrolled and the State financial intermediaries - resorted in 1977 to both internal and external financing, to a sum of nearly 125,000 million pesos, of which 55% came from abroad.

The use of net external financial resources, therefore, came to nearly 3,300 million dollars, representing an increase of 15% compared with the balance of the debt at the end of 1976, and situated within the programmed margins of indebtedness with the exterior. The structure of debt was also notably modified, when the debt contracted for periods of less than a year was reduced by slightly over a quarter, and this meant a relative alleviation of the pressure from the short-term liabilities. While on 31 December 1976, therefore, the balance of the debt for periods of less than a year accounted for 19% of the total debt, at the end of 1977 this proportion had dropped to 12%.

With regard to the structure of the debt, the energy sector accounted for 29% of the total - which indicates the growing need for financial resources on the part of Petróleos Mexicanos - and was followed in decreasing order by the Federal Government with a share of 18% and the industrial sector with a share of 14.9%.

Within the framework of a five-year economic and social development strategy whose main objectives in the medium-term are to achieve the sustained growth of production through the mobilization of real resources which will make it possible to cut down high existing unemployment and strengthen the role of the State in the development process the spending budget of the Federation for 1978 was published in December 1977.

<sup>18/</sup> Data supplied by the Banco de México, S.A.

The immediate aims of the public sector's spending programmes for 1978 were to reactivate the economy and create sources of employment by resorting to specific programmes on the basis of establishing an order of priority and keeping the process of inflation and the monetary and financial disequilibria under control.

In accordance with the criteria of equilibrium, the expenditure budgeted for 1978 amounts to rather more than 912,000 million pesos; this represents an increase in current prices of nearly 24%, compared with 1977. If it is considered that the rate of inflation has been dropping, and reached an annual growth rate of 18% in 1977, it may be assumed that the expenditure programmed implies a real increase in public spending. Under current expenditure, only the increase in resources which is absolutely necessary for the adequate functioning of the different public bodies and para-State enterprises is considered. However, an increase of 31% is anticipated for public investment, basically aimed at the sectors considered strategic - the agriculture and forestry, fisheries, petroleum and basic petrochemicals sectors, electricity and capital goods - of which the energy sectors have top priority in 1978 and throughout the five-year period. Once the liabilities stemming from the debt and the shares of states and municipalities have been deducted, the industrial sector will as a whole absorb 57% of public investment resources, while 18% of this spending will be channelled towards the agricultural sector.

The statute on the income of the Federation for the financial year 1978 also programmes an approximate sum of public sector current and capital income of around 621,000 million pesos. With regard to the collection of taxes, income tax - the most important item - is expected to yield around 113,000 million pesos, this increase depends on the improvement of the systems of collection, and of tax administration and control, rather than on the reform of methods of taxation, which it has been considered prudent to postpone until the economic and social system improves.

/NICARAGUA

## NICARAGUA

### 1. The overall picture

In 1977 Nicaragua's economy showed a growth rate of 5.5% or slightly over the 1976 rate (see table 1).

The greatest dynamic impulse stemmed from external demand, particularly owing to the marked improvement in the terms of trade, since the volume of external sales declined. This decline was basically due to adverse weather conditions and the appearance of pests which affected coffee and cotton, the main export crops.

Another factor which to a certain extent influenced the overall growth of the economy was the expansion of public expenditure, on both fixed investment and consumption, and the significant increase in fixed investment in the private sector. Furthermore, there was a considerable increase in stocks of goods which, like the increase in fixed investment, was reflected in imports. In addition, an appreciable proportion of total investment, largely of the public sector, increased the country's external indebtedness, the servicing of which will have an impact on the balance of payments in the near future.

Owing to the favourable world prices in the early months of 1977, the shortfall in the domestic supply of export commodities - mainly coffee and sugar - did not affect the current value of external sales of goods which went up by 114 million dollars. The rise in imports, however, increased the current account deficit on the balance of payments to more than twice the previous year's figure, i.e., from 72 to 154 million dollars. This plunged the country once again into the deficit situations that had characterized it during the most intensive stage of reconstruction following the 1972 earthquake in Managua. Another factor contributing to the external deficit was the net outflow of private capital. This began in the second half of the year as the result of rumours of a possible devaluation of the córdoba for political reasons.

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	841	883	997	1 016	1 069	1 128
Population (millions)	2.10	2.17	2.24	2.32	2.40	2.48
Per capita gross domestic product (US dollars at 1970 prices)	400	407	445	438	446	455
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	3.2	5.1	12.9	1.9	5.2	5.5
Per capita gross domestic product	-0.1	1.7	9.2	-1.4	1.8	2.1
Gross income <sup>b/</sup>	5.6	4.3	12.2	-2.8	12.2	9.8
Terms of trade	10.4	-4.6	-4.3	-19.2	31.7	17.0
Current value of exports of goods and services	42.2	9.6	29.1	1.1	37.3	18.8
Current value of imports of goods and services	10.8	58.9	56.2	-9.3	4.2	29.4
Consumer price index						
December to December	...	...	...	1.9	6.2	10.2
Variation between annual averages	...	...	...	1.8	2.8	11.4
Money	24.2	54.6	11.8	-3.5	25.5	5.0
Current income of government	0.2	43.7	45.7	-3.1	15.4	15.3
Total expenditure of government	11.9	27.0	70.3	3.9	4.3	34.0
Fiscal deficit/total expenditure of government <sup>c/</sup>	30.4	21.3	32.6	37.2	30.5	40.2
<u>Millions of dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	51	-77	-214	-148	-3	-67
Balance on current account	19	-83	-266	-195	-72	-154
Variation in net international reserves	24	60	-28	38	23	-26
External debt	255	347	503	644	691	836

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Percentage.

/In order



In order to lessen the external deficit, recourse was had to greater external borrowing and to international reserves, which dropped in net terms by 26 million dollars.

A particular feature of the public finances was the marked growth of the fiscal deficit which doubled the 1976 figure. It amounted to about 8% of the gross domestic product and 40% of central government expenditure. This evolution was the result of a 34% increment in public spending, which easily exceeded the 15% increase in current income (see table 1).

The lower rate of expansion of income was due to the stagnation of revenue from direct taxes on income. Furthermore, indirect taxes on imports grew by a smaller volume than the tax on purchases since most of these were made by the public sector.

Central government capital expenditure increased by 45%. To finance this, recourse was had to external loans, partly through international commercial banks, which accentuated the trend observable for some years towards a bigger share of private loans. In its turn, the total external public debt guaranteed by the State rose by nearly 21% to around 840 million dollars at the end of the year.

In the monetary field, the Central Bank was able to reduce the growth rate of the money supply from 25% in 1976 to 5% in 1977 by measures such as restrictions on rediscount operations and a more active sale of stabilizing bonds at rates similar to those paid on the world market. The purpose of these measures was to contain the upsurge of inflation that might result from the expectations of a year of favourable export prices and the considerable increase in public spending.

With the repeal of the Emergency Economic Law in February 1977, prices were freed and this measure contributed to a price increase of 10.2%, thus exceeding the previous year's rise of 6.2%. In contrast, the Government adopted a policy of wage restrictions which, in part, led to a deterioration in the real income of wage-earners. Thus, 20% of the economically active population affiliated to the Nicaraguan Social Security Institute and consisting mainly of urban workers experienced a drop of 1.5% in their real average wage.

/Moreover, in

Moreover, in the agricultural sector where there is considered to be a high level of underemployment, the rural workers had to face problems caused by the drought and pests affecting mainly subsistence agriculture. In short, in spite of the fact that the rate of economic growth exceeded the population growth rate, its effects do not seem to have benefited the bulk of the population.<sup>1/</sup>

## 2. Recent economic trends

### (a) Total supply and demand

In 1977 the volume of imports of goods and services increased at an exceptional rate (21%). As a result, the rate of growth of total supply was also very high and easily exceeded that of the gross domestic product (see table 2). The rapid expansion of imports also helped to raise the import coefficient (35%) to one of the highest levels in Latin America in 1977.

On the demand side, the main dynamic factor was investment which increased at the exceptionally rapid rate of 46%. This increase was largely due to the notable expansion of public investment which after a very significant increase in 1976 rose, according to official figures, by 54% in 1977. A large part of this investment, however, was used for the purchase of road-building and maintenance machinery and equipment, and a high proportion has not yet been utilized so that its effects on the expansion of production capacity have probably not yet been felt. Another part of public investment was channelled into the construction of public buildings to replace those destroyed by the earthquake in 1972.

Total investment by the private sector also grew at a high rate (40%). Nevertheless, two-thirds of this increase was due to the accumulation of stocks, the changes in which were 10 times those recorded in 1976. Productive investment in machinery and equipment absorbed only one-fifth of this increase and the rest was assigned to construction (see table 3).

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<sup>1/</sup> It is estimated that 90% of rural households have an average monthly income of about 100 dollars, and for 82% of urban households it is less than 200 dollars. In contrast, 8,500 Nicaraguan households (2.4% of the total) have a monthly income of over 700 dollars. (Unpublished survey carried out by the Statistics and Census Office of Nicaragua.)

Table 2  
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Total supply</u>	<u>9 399</u>	<u>9 780</u>	<u>10 665</u>	<u>129.2</u>	<u>135.1</u>	<u>-4.6</u>	<u>4.0</u>	<u>9.0</u>
Gross domestic product at market prices	7 111	7 483	7 894	100.0	100.0	1.8	5.2	5.5
Imports of goods and services <sup>b/</sup>	2 288	2 297	2 771	29.2	35.1	-20.3	0.4	20.6
<u>Total demand</u>	<u>9 399</u>	<u>9 780</u>	<u>10 665</u>	<u>129.2</u>	<u>135.1</u>	<u>-4.6</u>	<u>4.0</u>	<u>9.0</u>
Domestic demand	7 353	7 612	8 567	102.5	108.5	-7.0	3.5	12.5
Gross domestic investment	1 131	1 301	1 898	18.6	24.0	-39.9	15.1	45.8
Gross fixed investment	1 256	1 272	1 660	16.4	21.0	-6.9	1.1	30.2
Construction	645	682	757	6.5	9.6	2.2	5.9	10.9
Machinery and equipment	611	590	903	9.9	11.4	-14.9	-3.3	53.1
Public	420	506	780		9.9	4.0	20.5	54.2
Private	837	768	880		11.1	-11.3	-8.2	14.6
Changes in stocks	-125	29	238	2.2	3.1	-	-	-
Total consumption	6 219	6 311	6 669	83.9	84.5	3.2	1.5	5.7
General government	723	712	869	9.6	11.0	14.7	-1.5	21.9
Private	5 499	5 599	5 800	74.3	73.5	2.0	1.8	3.6
Exports of goods and services <sup>b/</sup>	2 046	2 168	2 098	26.7	26.6	5.2	5.9	-3.2

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;  
1977: CEPAL estimates on the basis of official data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

Table 3  
NICARAGUA: TOTAL GROSS INVESTMENT

	Millions of córdobas at 1970 prices								Growth rates						
	1970	1971	1972	1973	1974	1975	1976	1977a/	1971	1972	1973	1974	1975	1976	1977a/
<u>Total gross investment</u>	<u>1 012</u>	<u>1 045</u>	<u>703</u>	<u>1 401</u>	<u>1 882</u>	<u>1 131</u>	<u>1 301</u>	<u>1 898</u>	3.4	-32.8	99.4	34.3	-39.9	15.1	45.8
Construction	355	371	402	467	631	645	682	757	4.6	8.4	16.1	35.2	2.2	5.9	10.9
Machinery and equipment	537	550	417	656	717	611	590	903	2.5	-24.3	57.4	9.4	-14.8	-3.5	53.0
Changes in stocks	120	124	-116	279	534	-125	29	238							
<u>Private investment</u>	<u>785</u>	<u>748</u>	<u>413</u>	<u>1 046</u>	<u>1 478</u>	<u>711</u>	<u>796</u>	<u>1 118</u>	-4.8	-44.8	153.3	41.3	-51.9	11.9	40.5
Construction	135	127	128	191	320	293	281	320	-5.9	0.8	49.6	67.6	-8.4	-4.2	14.0
Machinery and equipment	551	497	401	576	624	544	487	560	-6.4	-19.2	43.6	8.4	-13.0	-10.5	15.2
Changes in stocks	120	124	-116	279	534	-125	29	238							
<u>Public investment</u>	<u>226</u>	<u>298</u>	<u>290</u>	<u>356</u>	<u>404</u>	<u>420</u>	<u>506</u>	<u>780</u>	31.6	-2.6	22.6	13.6	3.9	20.5	54.3
Construction	215	239	270	269	300	341	392	426	11.2	12.7	-0.3	11.5	13.8	14.8	8.6
Machinery and equipment	11	58	20	86	104	78	114	354	435.0	-65.4	328.0	20.0	-24.7	45.3	211.9

Source: CEPAL, on the basis of figures supplied by the Central Bank of Nicaragua.

a/ Preliminary figures.

Thus the appreciable expansion of investment, both public and private, failed to reflect a comparable increase in production capacity in the short term.

Total consumption grew by 5.7%, a higher rate than in the previous year decisively stimulated by the considerable increase in government consumption. This grew by 22% owing to the larger volume of purchases of goods and services, since expenditure on personal services remained practically at the 1976 levels. The growth rate of private consumption also exceeded the 1976 rate. This expansion was partly due to the higher rate of spending by the high-income strata, as is borne out by an analysis of the structure of imports of consumer goods in which purchases of consumer durables predominated.

In contrast, the volume of exports of goods and services which in previous years had grown at a higher rate than domestic demand, declined by a little over 3% in 1977 (see table 2).

(b) Sectoral development

The relatively favourable evolution of the gross domestic product was basically due to the growth of manufacturing (6%), construction (11%), electricity, gas and water (12%) and commerce and finance (5%) (see table 4).

(i) Agriculture. The agricultural sector expanded at a rate of nearly 3% in 1977, which was less than the rate recorded in the previous year (4%). This lower rate of growth was basically due to the slowing-down of crop farming whose growth rate dropped from 3.5% in 1976 to 1.4% in 1977, while the sectors carrying less weight in the total (livestock production and forestry) expanded very slightly over 1976.

The performance of agriculture was influenced by weather factors (mainly drought) and pests which affected the coffee and cotton crops in particular and did not permit full advantage to be taken of the favourable world market situation for these commodities that prevailed at the beginning of the year.

Table 4

NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977a/	1970	1977a/	1975	1976	1977a/
Agriculture	1 798	1 871	1 922	27.0	26.6	3.4	4.1	2.7
Mining	27	20	18	0.7	0.2	-20.7	-25.0	-11.9
Manufacturing	1 270	1 304	1 379	19.2	19.1	2.4	2.6	5.8
Construction	339	359	397	3.5	5.5	2.2	5.9	10.7
<u>Subtotal goods</u>	<u>3 434</u>	<u>3 554</u>	<u>3 716</u>	<u>50.4</u>	<u>51.4</u>	<u>2.6</u>	<u>3.5</u>	<u>4.6</u>
Electricity, gas and water	121	151	169	1.7	2.3	16.0	24.6	12.2
Transport, storage and communications	376	400	416	5.8	5.8	-1.4	6.4	4.1
<u>Subtotal basic services</u>	<u>497</u>	<u>551</u>	<u>585</u>	<u>7.5</u>	<u>8.1</u>	<u>2.0</u>	<u>4.7</u>	<u>6.5</u>
Commerce, financial institutions and insurance	1 337	1 448	1 524	20.5	21.1	-2.3	8.3	5.2
Real estate b/	328	347	370	7.1	5.1	6.0	5.7	6.7
Community, social and personal services c/	946	980	1 030	14.6	14.2	10.6	3.6	5.1
<u>Subtotal other services</u>	<u>2 611</u>	<u>2 775</u>	<u>2 924</u>	<u>42.2</u>	<u>40.4</u>	<u>1.5</u>	<u>6.3</u>	<u>5.3</u>
<u>Total gross domestic product d/</u>	<u>6 511</u>	<u>6 851</u>	<u>7 227</u>	<u>100.0</u>	<u>100.0</u>	<u>1.8</u>	<u>5.2</u>	<u>5.5</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;  
1977: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ Ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the later.

The attractive world prices of cotton during the sowing period and at the end of 1976 (about 80 US cents per pound) led to a 7% increase in cultivated area. Nevertheless, the drought that affected the northern part of the country reduced the harvested area and at the same time caused a great incidence of pests. This kept the yield per manzana at 10 quintals of ginned cotton, whereas in normal periods it fluctuated around 12 quintals. The harvested output (some 3 million quintals of ginned cotton) was considered to have been 47% less than expected.

The production of coffee was slightly below the 1976 level owing to strong winds which lashed the plantations during the flowering stage and despite the policy of renewal and improved management of plantations initiated in earlier years. The high prices encouraged producers - with financing from the Special Development Fund (FED) - to introduce new techniques in coffee-growing in the form of improved fertilization and control of pests, such as the red blight which infested the Pacific region. This outbreak - the first of its kind in Central America - was combated vigorously. The cost of the eradication campaign in 1977 was 11 million dollars, of which 5 million were financed with a loan from the Central American Bank for Economic Integration. This programme arrested the spread of the disease, although it is too early to know whether it has been completely eradicated.

The production of sugar cane decreased slightly compared with the high levels reached in 1976, even though the area sown was similar to that cultivated in 1976. The explanation of this trend lies both in the decline in world prices which induced farmers to harvest only part of the area sown, and in the drought which damaged the unirrigated plantations. Furthermore, the projects for the expansion of sugar refineries were suspended pending the stabilization of prices which is expected to result from the ratification of the National Sugar Agreement negotiated in October 1977.<sup>2/</sup>

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<sup>2/</sup> At the end of December 1977 Nicaragua had not yet ratified the International Sugar Agreement as envisaged but expressed its intention of implementing it provisionally.

On the other hand, the programme of diversification of agricultural commodities for export permitted an increase in the area under cultivation, the principal crops being bananas and Havana tobacco.

Among the basic grains for domestic consumption, the crops showed contrasting trends. While the production of rice rose by about 20%, that of beans fell by nearly 27% and that of maize and sorghum remained at the same level, affected by the drought which was responsible for low yields in the spring harvest and significant declines during the subsequent sowings. Added to this were the low prices paid to producers and the increase in the area sown to cotton at the expense of that used for basic grains.

Livestock production grew more rapidly (6%) than crop farming, but the steady decline in world beef prices during the major part of the year discouraged the rate of slaughtering for export. With the slight upturn in world prices at the end of 1977, however, slaughtering was reactivated in order to fill the United States export quota of 50.7 million pounds.

Forestry, in its turn, remained practically at a standstill owing to the indiscriminate exploitation of commercial forests, which are clearly being depleted, and to the fact that the new concessions are in areas of difficult access by land.

Lastly, the fishing activity grew at a low rate (1.3%), similar to that of the preceding year. The shrimp and lobster catches were destined almost exclusively for export (80%) and their volume represented about one-third of all fishing activity.

Government policy in 1977 was to design and instrument a network of agencies which, once in full operation, would make it possible to increase the productivity and income of small- and medium-scale farmers and to diversify production for export. These include the Nicaraguan Institute of Agrarian Technology (INTA) whose main goals are the extension and spread of staple crops and the generalized use of improved coffee seeds. Six model farms have already been established under this programme. Added to this was the emphasis placed in 1977 on combating the red blight affecting coffee.



The Peasants' Welfare Institute continued its policy of granting municipal credit to small population centres for development purposes (sewerage, drinking water supply and provision of materials for the construction of roofed-in markets, etc.), loans to small-scale producers and technical assistance for diversifying production, supplying inputs and facilitating marketing jointly with the National Institute of Foreign and Domestic Trade (INCEI). In 1977 this institution doubled its volume of operations in relation to the previous year, reaching the sum of 20 million córdobas.

The National Agrarian Institute (IAN) proceeded with the Rogoberto Cabezas land settlement project (Phase I) in the south-central region of Nicaragua. The first stage placed particular emphasis on maize, beans and rice crops and pasture for livestock. At present, in Phase II, the cultivation of pineapples and yuca is being introduced. Moreover, it is planned to increase the land settlement area by further clearing, opening up roads and providing facilities for the construction of dwellings.

In 1977 the financing programmes were also extended to cover the cotton and coffee crops. In the former case, the Banco Nacional continued to finance nearly all the sowings; in the second case, the Special Development Fund provided support for part of the improvement programmes in co-operation with coffee-growers through the reinvestment of profits in order to reach a future yield of 15 quintals of coffee per cultivated manzana. In turn, the amount of credit disbursed by the public sector and specifically assigned to short-term agricultural production was 42% higher than in the previous year; 70% of this credit was allocated to cotton, coffee and sugar cane, and only 30% to basic grains for domestic consumption.

(ii) Manufacturing. The value added in the manufacturing sector grew at a rate of nearly 6% (see table 5). This expansion was due to the growth of domestic demand and was basically the result of the greater use of installed capacity, since no major investment was made in new industries in 1977. Under the head of beverages, however, a new brewery entered into operation; in the metal products branch the plant of the INCA enterprise for manufacturing wire rod was expanded and the production of chemicals was stimulated both by the expansion of the PVC plant and by the greater demand for fertilizers and insecticides as a result of the increased area sown to cotton.

Table 5  
NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of córdobas at 1958 prices				Percentage breakdown a/		Growth rates a/		
	1974	1975	1976	1977	1970	1977	1975	1976	1977
Food	463	536	547	567	40.2	36.2	15.8	2.0	3.8
Beverages	109	117	133	150	7.7	9.5	8.0	13.5	12.6
Tobacco	65	66	81	87	4.8	5.5	1.4	22.6	6.4
Textiles	90	92	97	92	5.8	5.9	2.8	5.5	-5.2
Footwear and clothing	43	41	47	46	4.9	2.9	-4.4	14.4	-2.1
Wood and cork	78	69	66	70	3.6	4.5	-12.1	-4.6	6.7
Furniture	13	13	14	15	1.3	0.9	-3.0	7.0	8.8
Pulp and paper	23	23	26	30	1.1	1.9	0.9	13.4	13.7
Printing and publishing	28	29	30	34	2.6	2.2	2.5	4.5	14.0
Leather products	8	10	9	9	1.1	0.6	15.5	-7.2	4.4
Rubber products	5	5	6	6	0.3	0.4	5.9	5.6	10.5
Chemical products	155	141	147	156	8.0	9.9	-9.1	4.0	6.4
Petroleum products	44	50	54	60	3.1	3.8	14.3	7.6	11.6
Non-metallic mineral products	104	88	99	106	5.0	6.7	-15.3	12.5	6.9
Metal products	103	81	63	76	5.3	4.8	-21.8	-21.4	18.9
Machinery and electrical and non-electrical articles	24	29	28	28	1.5	1.8	21.6	-3.5	0.7
Transport equipment	4	6	7	6	0.3	0.4	27.9	20.0	-7.6
Other	34	31	51	33	3.2	2.1	-8.6	1.3	6.1
<b>Total</b>	<b>1 393</b>	<b>1 427</b>	<b>1 485</b>	<b>1 571</b>	<b>100.0</b>	<b>100.0</b>	<b>2.4</b>	<b>4.1</b>	<b>5.8</b>

Source: Central Bank of Nicaragua.

a/ The structure and rates were calculated on the basis of the actual figures, not rounded.

/Food processing,

Food processing, which represents over 34% of the manufacturing value added, recorded a lower growth rate (3.8%) than the average for the whole manufacturing sector. The dynamism of the manufacture of dairy products was due to the increased installed capacity of the milk powder processing plant. Other items in process of expansion were animal feed, edible oils and fats, canned fish and processed vegetables. These increases however, were partially counteracted by the decline in sugar output.

Textiles and clothing and footwear, whose production diminished, were affected by the deterioration in the real income of wage-earners and by specific problems of the main producing companies, a situation which was partly neutralized by the greater dynamism of sales to Central America, particularly of textiles, which increased by nearly 23% from slightly under 10 million dollars in 1976 to 12 million in 1977.

The limited domestic supply of manufactures made it necessary to satisfy the increased domestic demand for industrial goods by means of purchases abroad; this raised the value of imports of manufactures by 32%. The imported supply coefficient of industrial demand thus rose from 40% to 44% between 1976 and 1977.

On the other hand, the share of exports of manufactured products in the gross value of production declined from 28% to 25% owing to a contraction of external demand, mainly for sugar. In contrast, sales to the Central American Common Market, which represent nearly half of the total exports of manufactures, expanded by 18% in current values, which shows the increasing industrial interrelationships between the Central American countries. This expansion was, however, counteracted by a drop of 12% (about 18 million dollars) in sales to third countries.

In 1977 the National Development Institute (INFONAC) pursued its policy of providing financial support for the development of industrial parks through the construction of buildings and the installation of basic services. These parks have not been as well received as had been expected, for want of an integrated development programme and the necessary technical and financial assistance. Among the main projects promoted by the Institute are a 12,000-spindle spinning mill for processing about 8,000 bales of cotton annually, and a project at Chinandaga for the production of Turkish towelling

/from 12,000

from 12,000 bales of cotton. The total investment in both these projects would amount to 18 million dollars, a large part of which would be obtained from external sources. INFONAC also promoted other small agro-industrial projects using domestic inputs, such as a plant for the production of salame and meat preparations and a pig slaughter-house. Lastly, in 1978 two more enterprises will be installed in the Las Mercedes free zone where radio and television sets will be assembled for export, in addition to the four existing plants manufacturing clothing, mainly means and shirts. Furthermore, the Banco Nacional de Nicaragua is promoting small-scale enterprises in areas far from the industrial centres. On the whole, industrial policy continued to place emphasis on the use of local raw materials, not only in agro-industrial projects but also in the processing of intermediate goods to meet both domestic demand and that of the Central American Common Market, which led to an increase in non-traditional exports. Nevertheless, the apparent lack of co-ordination of the industrial policy mechanisms used by several public sector bodies, the commercial sector's pressure against the ratification of the Third Protocol to the Central American Agreement on Fiscal Incentives to Industrial Development - notwithstanding the manufacturers' support <sup>3/</sup> - and other recent factors of a conjunctural nature have created an atmosphere of uncertainty as regards undertaking certain large-scale projects.

(iii) Construction. The value of construction distinctly recovered with a real increase of about 11% over the 1976 level. The public sector maintained its rising trend and took the place of private enterprise as the principal driving force of construction, its share in 1977 being 58% of the projects compared with 48% in 1974. This government policy was reflected in higher investment in community and infrastructure works (road network, ports, etc.) and partly in the construction of public buildings for the health and education sectors (see table 6).

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<sup>3/</sup> By means of this Protocol, the Governments of Costa Rica, El Salvador, Guatemala and Nicaragua extend for a further five years the period in force of the fiscal incentives and surcharges in respect of imports and consumption established as emergency measures in defence of the balance of payments by the San José Protocol of 1968.

Table 6

NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY

	Millions of córdobas at 1970 prices				Growth rates		
	1974	1975	1976	1977a/	1975	1976	1977a/
<b>Total value of construction</b>	<b>630</b>	<b>631</b>	<b>652</b>	<b>722</b>	<b>0.2</b>	<b>3.3</b>	<b>10.7</b>
<u>Private</u>	<u>330</u>	<u>302</u>	<u>290</u>	<u>306</u>	<u>-8.3</u>	<u>-4.3</u>	<u>5.7</u>
Dwellings	251	230	233	258	-8.4	1.3	10.8
Commercial	27	29	18	12	7.5	-37.5	-34.4
Industrial	8	10	10	7	32.5	-5.9	-29.2
Agricultural	20	12	12	12	-40.0	3.3	-4.8
Other	24	21	17	17	-11.2	-23.4	5.5
<u>Public</u>	<u>300</u>	<u>329</u>	<u>362</u>	<u>416</u>	<u>9.5</u>	<u>10.3</u>	<u>14.8</u>
Buildings	106	127	165	180	19.6	29.5	9.6
Roads and community projects	97	141	133	161	45.6	-6.2	21.4
Other	97	61	64	75	-37.9	8.8	14.5
<b>Area constructed (thousands of m<sup>2</sup>)</b>							
Total	323	270	252	277	-16.2	-6.9	10.2
Dwellings	134	171	133	160	27.7	-22.3	20.5
<b>Number of buildings</b>							
Total	1 472	1 789	2 337	1 551	21.5	30.6	-33.6
Dwellings	708	1 636	2 170	1 412	131.0	32.6	-34.9
<b>Employment (thousands of persons)</b>	<b>24.2</b>	<b>27.8</b>	<b>29.6</b>	<b>30.3</b>	<b>14.9</b>	<b>6.5</b>	<b>2.4</b>

Sources: Total value of construction: CEPAL, on the basis of data supplied by the National Planning Office;

Area constructed: Survey and Census Office (OEDEC).

a/ Preliminary estimates.

/The building

The building of dwellings, on the other hand, reversed its trend with the rise in unit value per dwelling built. While the area constructed increased by 20%, the absolute number of dwellings declined sharply. The expansion of the construction of dwellings may be ascribed mainly to private enterprise, since the Banco Nacional de la Vivienda, which had programmed investment for about 210 million córdobas, actually invested only 57% of this sum. There were several reasons of a financial nature for this decline; in particular the fact that only 30% of the external loans requested were obtained, and the Bank's growing indebtedness with its local contractors. Moreover, the real value of private construction of commercial, industrial and agricultural buildings continued to decrease (see tabel 6).

The plan for the reconstruction of Managua was somewhat slow in starting, among other reasons because there were still problems to solve concerning the payment of indemnity for land in the destroyed area, because the urban planning process was never really put into effect by the group of public bodies in the Managua area and, lastly, because public sector bodies and private enterprises are carrying out new projects not included in the plan and sometimes even in distinct opposition to it.<sup>4/</sup> Furthermore, a high percentage of the dwellings destroyed have not been rebuilt in permanent form. In addition, the new city is being constructed in the form of nuclei of buildings and still lacks adequate basic and transport services.

### 3. The external sector

#### (a) The current account

In spite of the appreciable growth of the value of exports of goods, the accelerated expansion of imports and the increased service payments caused the deficit on current account to rise from 72 to 154 million dollars. This adverse balance was equal to about 20% of the current foreign exchange receipts. It was influenced by the increase in the chronic deficit in the services account, which was not compensated for by the surplus recorded by trade in goods which, owing to the accelerated growth of imports, fell from 44 million to 1 million dollars (see table 7).

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<sup>4/</sup> See UNDP, Planificación de la reconstrucción de Managua (DP/UN/NIC-73-018-7), March 1977.

Table 7

NICARAGUA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
<b>Current account</b>						
Exports of goods and services	319	350	451	456	626	743
Goods FOB	249	278	380	375	542	655
Services	70	72	71	81	84	88
Transport	10	10	16	25	27	30
Travel	14	12	23	26	27	28
Imports of goods and services	268	426	665	604	629	810
Goods FOB	205	327	540	482	498	654
Services	63	99	125	122	131	156
Transport	25	37	58	56	58	76
Travel	17	17	33	32	36	39
Net payments of profits and interest on foreign capital	-37	-47	-58	-54	-73	-95
Profits	-25	-31	-37	-24	-41	-52
Interest	-12	-16	-21	-30	-32	-43
Net private transfer payments	4	40	6	7	4	8
Balance on current account	19	-83	-266	-195	-72	-154
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	-19	83	266	195	72	154
(a) Net external non-compensatory capital	46	162	275	194	63	
Direct investment	10	13	14	11	12	
Long- and medium-term loans	62	122	181	168	101	
Amortization payments	-19	-16	-21	-26	-45	
Short-term liabilities	-10	26	92	31	-11	
Official transfer payments	3	17	9	10	6	128
(b) Domestic non-compensatory capital or assets	-38	-18	-25	41	-2	
(c) Errors and omissions	-6	-2	-12	-2	34	
(d) Allocation of SDRs	3	-	-	-	-	
(e) Net compensatory financing						
(minus sign signifies an increase)	-24	-60	28	-38	-23	26
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	4	18	4	15	7	...
Amortization payments	-8	-10	-7	-9	-8	...
Variation in gross international reserves						
(minus sign signifies an increase)	-20	-68	31	-43	-22	...
Foreign exchange reserves						
(minus sign signifies an increase)	-18	-69	31	-45	-23	...
Gold reserves						
(minus sign signifies an increase)	-	-	-	-	-	...
SDRs						
(minus sign signifies an increase)	-3	1	-	2	1	...

Sources: 1970-1976: CEPAL, on the basis of data supplied by the International Monetary Fund;  
1977: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

/(i) Exports.

(i) Exports. The increase in the total value of exports of goods (21%) was due to the rise in world prices which, although not as steep as in 1976 - the unit value grew 24% compared with 36% in the previous year - was still substantial. The volume exported declined, in contrast, by around 3% (see table 8).

The principal source of exports continued to be the agricultural sector which accounted for nearly two-thirds of total external sales. Thanks to an increase of 73%, coffee took the place of cotton as the main export commodity, despite the fact that the volume exported fell by 3.3%. As a result of the high prices prevailing in the first quarter of 1977, coffee sales reached a current value of around 210 million dollars and represented about one-third of total exports of goods (see table 9).

The value, volume and unit price of exports of cotton rose by 17.5%, 4.0% and 11%, respectively, owing on the one hand to the decline in world stocks of this fibre and on the other to an increase in consumption. As in the case of coffee, however, with the recent drop in the future market price, combined with the increase in production and world stocks, it may be expected that prices will be lower in 1978 than in 1977. In addition, the area sown for the 1978/1979 harvest has decreased and a rise in current value will only be possible by improving the yields.

Sugar exports amounted to 33 million dollars compared with 53 million in the preceding year. The deterioration was due to a drop in production resulting from the declining trend in world prices over the past 18 months. The United States is the principal market for Nicaragua's sugar sales, but until the International Sugar Agreement has been ratified by all the member countries, the protectionist measures decreed by the Government of that country at the end of 1977, guaranteeing a price of 13.5 US cents per pound for domestic producers, will limit Nicaragua's exports.

The exportable volume of meat contracted by 9%, its value by nearly 13% and the price by 5%. The low prices prevailing during a major part of the year reduced deliveries, but it is estimated that the export quota of 50.7 million pounds for the United States was filled, although the exportable balance to third countries declined.

/Table 8



Table 8  
NICARAGUA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
	<u>Growth rates</u>					
Exports of goods						
Value	33.6	11.9	36.6	-1.2	44.5	21.0
Volume	17.8	-1.0	8.3	6.3	6.1	-2.7
Unit value	13.5	13.0	26.1	-7.1	36.3	24.3
Imports of goods						
Value	8.5	59.9	65.3	-10.8	3.2	31.5
Volume	5.6	34.8	25.3	-22.4	-0.2	23.7
Unit value	2.8	18.4	31.8	15.0	3.4	6.3
Terms of trade	10.4	-4.6	-4.3	-19.2	31.7	17.0
	<u>Indexes (1970 = 100)</u>					
Terms of trade	107.6	102.6	98.2	79.4	104.6	122.4
Purchasing power of exports of goods	134.3	126.3	131.4	112.6	157.2	178.9
Purchasing power of exports of goods and services	139.5	132.8	133.7	119.1	157.6	175.0

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

Table 9

NICARAGUA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977a/	1970	1977	1975	1976	1977a/
<u>Main traditional export products</u>	<u>225.9</u>	<u>228.2</u>	<u>360.1</u>	<u>447.4</u>	<u>60.8</u>	<u>68.3</u>	<u>1.0</u>	<u>57.8</u>	<u>24.2</u>
Cotton	135.9	95.6	130.6	153.4	19.1	23.4	-29.7	36.6	17.5
Coffee	46.1	48.1	119.4	206.6	18.0	31.5	4.3	148.2	73.0
Meat	21.9	27.0	37.6	32.8	14.9	5.0	23.3	39.3	-12.8
Sugar	12.3	42.6	52.8	32.5	5.5	5.0	246.3	23.9	-38.4
Shrimps and lobsters	9.7	14.9	19.7	22.1	3.3	3.4	53.6	32.2	12.2
<u>Main non-traditional export products</u>	<u>59.8</u>	<u>57.6</u>	<u>73.4</u>	<u>87.5</u>	<u>9.5</u>	<u>13.4</u>	<u>-3.7</u>	<u>27.4</u>	<u>19.2</u>
Bananas	5.3	4.9	4.6	4.5	0.2	0.7	-7.5	-6.1	-2.2
Unmanufactured tobacco	3.9	4.1	4.7	4.8	1.1	0.7	5.1	14.6	2.1
Pigs	2.3	2.2	3.3	4.5	0.3	0.7	-4.3	50.0	36.4
Chemical products	36.1	30.3	41.6	54.2	5.3	8.3	-16.1	37.3	30.3
Textiles	8.0	9.3	11.8	12.3	2.5	1.9	16.3	26.9	4.2
Dairy products	4.2	6.8	7.4	7.2	1.1	1.1	61.9	8.8	-2.7
<u>Other export products</u>	<u>95.2</u>	<u>89.4</u>	<u>108.4</u>	<u>120.6</u>	<u>29.7</u>	<u>18.3</u>	<u>-6.1</u>	<u>21.3</u>	<u>11.3</u>
<u>Total</u>	<u>380.9</u>	<u>375.2</u>	<u>541.9</u>	<u>655.5</u>	<u>100.0</u>	<u>100.0</u>	<u>-1.5</u>	<u>44.4</u>	<u>21.0</u>

Source: Central Bank of Nicaragua.

a/ Preliminary figures.

/It should

It should be noted that sales of chemical products to a value of 54 million dollars occupied third place in the structure of exports, displacing sugar; 90% of these sales went to the Central American area; they consisted mainly of caustic soda, chlorated camphene for the manufacture of insecticides and, in particular, polyvinyl chloride and manufactured insecticides.

In contrast, the rest of the non-traditional export products, except pigs, showed little increase (see table 9).

(ii) Imports. Imports of goods experienced a growth of 32% and reached a value of a little over 700 million dollars. The following among other factors account for this upsurge:

- The high export earnings, which were used partly for imports of consumer goods;
- The bigger area sown to cotton and the coffee-growing improvement programme which involved almost doubling the purchases of raw materials and intermediate products for agriculture (mainly fertilizers and insecticides), and increasing imports of agricultural machinery;
- The rise in imports of crude petroleum and petroleum products which was due not so much to the price increase - which was only 5% - but to the effects of electricity rationing at the beginning of 1977, owing to the drop in the water level in Lake Apanás, which compelled industrial entrepreneurs to import diesel engines to make good the shortage of public energy, and the National Light and Energy Enterprise (ENALUF) to put the second 50 MW turbine into operation;
- The increase in imports of heavy road building and maintenance equipment; and
- The high level recorded by fixed capital formation, with a considerable imported component.

Raw materials and intermediate goods continued to predominate, representing nearly 50% of the total value of imports. Those for industry (25% of the total) and fuels (12.5%) accounted for the largest share. Consumer goods and capital goods represented just over 25% each (see table 10). The income-effect of the export boom in the last two years was reflected in the high growth rates of imports of consumer durables and capital goods.

Table 10

NICARAGUA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1970	1977	1975	1976	1977 <sup>a/</sup>
Consumer goods	126	123	145	167	29.2	26.6	-2.8	18.6	28.6
Non-durable	80	78	95	118	19.0	16.8	-2.0	21.7	24.6
Durable	50	45	51	69	10.2	9.8	-11.0	13.2	36.0
Intermediate goods	318	275	274	333	47.6	47.5	-13.4	-0.5	21.6
Petroleum and fuels	59	73	68	88	5.7	12.5	23.1	-7.1	29.4
For:									
Agriculture	42	32	19	36	4.0	5.1	-23.1	-40.9	88.5
Manufacturing	189	142	156	175	30.7	24.9	-24.6	9.8	11.6
Construction	28	28	31	35	7.2	5.0	-	10.8	14.0
Capital goods	115	119	113	182	23.2	25.9	3.5	-5.2	61.2
Agriculture	13	13	13	19	1.8	2.7	-6.7	5.6	43.9
Manufacturing	74	85	76	87	17.0	12.4	15.6	-10.8	14.7
Transport	28	21	24	76	4.4	10.8	-23.7	10.8	221.3
<u>Total</u>	<u>562</u>	<u>517</u>	<u>532</u>	<u>702</u>	<u>100.0</u>	<u>100.0</u>	<u>-8.0</u>	<u>2.9</u>	<u>31.9</u>

Source: Central Bank of Nicaragua.

<sup>a/</sup> Preliminary figures.

(iii) The terms of trade. As a result of the bigger rise in the unit price of exports (24%) than in the average import prices (6%), the terms of trade experienced a further substantial increase. Their level in 1977 was thus 50% higher than in 1975 and the highest for 15 years. Thanks to this the purchasing power of exports increased vigorously for the second consecutive year and its index reached an unprecedented level (see table 8).

(iv) Intra-regional trade. Of Nicaragua's total exports, some 136 million dollars' worth were placed in Central America. Nevertheless, the CACM's share in total sales diminished from nearly 25% in 1976 to a little less than 21% in 1977, mainly owing to the fact that the main dynamic element in sales to this area had been exports of coffee and cotton. Over 90% of trade with Central America was based on manufactured products. Chemical products accounted for over one-third of the total, followed by textiles and dairy products.

Imports from the subregion in their turn represented 24% of total purchases, which was slightly lower than in 1976 (26%) owing to the fact that the increased purchases were concentrated on items and sectors of which the rest of the Central American countries are also in short supply or are net importers. The main import items in decreasing order of importance were textiles (including clothing), footwear, chemical products, foodstuffs (raw and processed) and pharmaceutical products.

The value of imports from the Central American area finally amounted to 166 million dollars, giving rise to a trade deficit of approximately 30 million dollars.

(b) Movements of capital

Although the current account deficit on the balance of payments more than doubled that of the previous year, it was below that recorded in 1974 and 1975. Net inflows of private capital continued to decrease, amounting to only 19 million dollars compared with 26 million in 1976 and 44 million in 1975. This drop occurred with the further reduction of private commercial credit and an outflow of foreign exchange for speculative purposes. The errors and omissions account - in which these movements are generally reflected - showed a negative balance of 33 million dollars compared with a /positive balance

positive balance of 7 million in the previous year. In contrast, inflows of official capital doubled, reaching a total of 143 million dollars. In these circumstances, the external deficit increased and it was necessary to have recourse to international reserves and borrowing (see table 7).

(c) The external debt

The balance of the public debt guaranteed by the State was 836 million dollars at the end of 1977 and servicing represented a little less than 16% of total exports of goods and services (see table 11). From 1978 onwards the amortization of the public external debt will be a good deal more onerous. It is expected to amount to some 80 million dollars, compared with a little over 50 million in 1977, when Nicaragua has to start repaying the soft credits and other commercial loans contracted to carry out the reconstruction programme. Lastly, in the structure of public external indebtedness there may be observed an increasing share of credit from private international banks, obtained on commercial terms, to which recourse was had as being of easier access and having more flexible and expeditious procedures than the loans granted by public international agencies.

4. Prices and wages

The rise in domestic prices accelerated in 1977. Consumer prices are estimated to have increased by 10.2% over December 1976, compared with a rise of 6.2% in the previous year (see table 12). This trend was influenced by a number of factors: the repeal of the Economic Emergency Law in February; some shortages in domestic supply, basically of foodstuffs; and the increase in transport rates due to the rise in the price of fuels.

Repealing the above Law was partly due to the Government's desire to liberalize the economy in the hope that the rise in prices would act as a stimulus to greater agricultural production for domestic consumption. As regards food, which accounts for a considerable share of the total index (44%), there were significant increases in the partial indexes as from February - basically in pulses, pork and pork preparations, coffee, maize, beans and non-alcoholic beverages - which contributed to a global expansion of 10.7% in this sector. The rise in the "miscellaneous expenditure" sub-index (12.6%) was mainly due to the increase in transport costs.

Table 11

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
Total external debt guaranteed by the State	255	347	503	644	691	836
Servicing of external debt	35	71	49	56	88	104
Amortization payments	23	52	20	20	41	51
Interest payments	12	19	28	36	48	53
Servicing of external debt, as a percentage of total exports	13.9	25.4	12.8	15.0	16.2	15.8

Source: Central Bank of Nicaragua.

<sup>a/</sup> Preliminary figures.

Table 12  
NICARAGUA: CONSUMER PRICE INDEX  
(1974 = 100)

	1975	1976	1977
<u>Variation between annual averages</u>			
<u>Consumer price index</u>	<u>1.8</u>	<u>2.8</u>	<u>11.4</u>
Food	0.7	1.2	14.8
Clothing	2.8	0.6	2.8
Dwellings	2.8	4.1	6.9
Miscellaneous	2.5	5.1	12.3
Price index by origin			
Domestic products			
Exports	0.3	1.3	12.9a/
Domestic consumption	2.3	3.3	11.9a/
Imported products	3.1	4.6	6.5a/
<u>Variation from December to December</u>			
<u>Consumer price index</u>	<u>1.9</u>	<u>6.2</u>	<u>10.2</u>
Food	-2.2	8.0	10.7
Clothing	2.3	2.5	2.6
Dwellings	3.5	5.0	8.9
Miscellaneous	4.6	5.2	12.6
Price index by origin			
Domestic products			
Exports	-1.8	8.2	11.1b/
Domestic consumption	3.0	5.8	10.3b/
Imported products	6.0	3.5	8.0b/

Source: Central Bank of Nicaragua.

a/ Variation from January to November 1977 compared with the same period in 1976.

b/ Variation between November 1977 and December 1976.

/In contrast,



In contrast, in spite of liberalizing rents of dwellings, the full effect of this measure was not felt, since the index concerned showed a growth of only 8.9%.

Finally, partial indexes of wages and salaries - which include only those of workers protected by the social security system who represent less than 20% of the economically active population - show a nominal increase of 8.6% in the average wages and salaries. This increase was less than the rise in prices, so that in real terms wages and salaries deteriorated by 1.5%. Since in 1976 the real purchasing power of these same workers had also decreased (2%), the real increase of 2.8% recorded in 1975 was practically cancelled out. Thus, real wages and salaries in 1977 remained at approximately the same level as in 1974 (see table 13).

#### 5. Fiscal and monetary trends

##### (a) Fiscal trends

The central government fiscal deficit rose significantly (76%) in 1977 to around 1,200 million córdobas, the highest level in the present decade. This increase in the deficit was due to a considerable increment in capital expenditure, particularly real investment which, according to official figures, rose by 133%. Another contributing factor, however, was current expenditure under the head of purchases of goods and services and transfers. To cover this deficit the State resorted almost entirely to external credit, only 5% being financed with domestic resources (see table 14).

Current income of the central government grew by 15%, mainly as the result of an increase in indirect taxes, revenue from which rose 23% and represented almost half of the total tax receipts. Chief among them were the taxes on production and consumption, which showed a trend towards a bigger share in government income. The reactivation of the economy, particularly the industrial sector, also led to an increase in revenue from taxes on imports (17%). In view of the public sector's substantial external purchases, however, this represented less than 9% of the total CIF value of imports, compared with 10% in 1976. Moreover, although export taxes increased six-fold, their absolute value (45 million córdobas) is still very low and represented only 1% of the total value of exports of goods and 3% of total tax revenue.

Table 13  
NICARAGUA: EVOLUTION OF WAGES AND SALARIES<sup>a/</sup>

	1975	1976	1977
<u>Indexes (1974 = 100)</u>			
Wages and salaries			
Nominal	105.8	110.1	119.6
Real	103.8	101.7	100.2
<u>Growth rates</u>			
Wages and salaries			
Nominal	5.8	4.1	8.6
Reales	3.8	-2.0	-1.5

Source: Central Bank of Nicaragua.

<sup>a/</sup> These data cover a sample of 20% of the economically active population which groups wage-earners covered by the Nicaraguan Social Security Institute. The coverage by sectors in relation to the total economically active population in the same sector is as follows: agriculture: 0.8%; manufacturing: 28.8%; construction: 41.3%; mining, electricity, gas and water: 100%; transport: 31.7% and services: 32.3%.

Table 14  
NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas at current prices				Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
1. <u>Current income</u>	1 365	1 323	1 527	1 761	-3.1	15.4	15.3
Tax revenue	1 137	1 151	1 353	1 596	1.2	17.5	18.0
Direct	180	265	350	351	47.2	32.1	0.3
Indirect	474	535	628	769	12.9	17.4	22.5
From taxes on external trade	484	352	374	476	-27.3	6.3	27.3
Non-tax revenue	228	172	174	165	-24.6	1.2	-5.2
2. <u>Current expenditure</u>	995	1 121	1 209	1 505	12.7	7.9	24.5
Wages and salaries	388	444	547	548	14.4	23.2	0.2
Other current expenditure	607	677	662	957 <sup>b/</sup>	11.5	-2.2	44.6
3. <u>Saving on current account (1-2)</u>	370	202	318	256	-45.4	57.4	-19.5
4. <u>Capital expenditure</u>	1 032	985	988	1 438	-4.6	0.3	45.5
Real investment	290	291	319	745	0.3	9.6	133.5
Amortization of the debt	81	144	157	204	77.8	9.0	29.9
Other capital expenditure	661	550	511	489	-16.8	-7.1	-4.3
5. <u>Total expenditure (2+4)</u>	2 027	2 106	2 197	2 943	3.9	4.3	34.0
6. <u>Fiscal deficit (or surplus) (1-5)</u>	-662	-783	-670	-1 182	18.3	-14.4	76.4
7. <u>Financing of deficit</u>	662	783	670	1 182	-	-	-
Domestic financing (net)	30	49	51	57	63.3	4.1	11.8
External financing	682	596	612	1 195	-12.6	2.3	95.3

Source: Central Bank of Nicaragua.

<sup>a/</sup> Estimates.

<sup>b/</sup> Includes an undetermined proportion of wages and salaries.

/The fiscal

The fiscal reform of 1975, the purpose of which was to redistribute income by means of a progressive tax on income and encourage gross capital formation, has not had the successful results expected. Thus in 1977 direct taxes barely increased, and the splitting-up of enterprises in order to present lower bases for taxation was accelerated and became the general rule, which accounts for the drop in income tax revenue. In contrast, the receipts from property taxes, with a good deal less relative importance, increased by 15%.

Furthermore, domestic public credit rose 12%, while external financing almost doubled, from which it may be expected that in the next few years debt servicing and the consequent pressures in connexion with its financing are bound to increase significantly (see table 14).

Total expenditure increased by 34% with the rise of 25% in current spending and 46% in capital expenditure. Of the former, transfers to the rest of the public sector rose by 84% and consumption expenditure by 13%, although public sector wages and salaries remained virtually at a standstill. In view of the increase in consumer prices, this meant a net loss in the purchasing power of the income of this group of workers.

Approximately half of the capital expenditure was assigned to real investment, which more than doubled and was concentrated in machinery and equipment, port infrastructure works (Puerto Corinto), and the reconstruction of public buildings for the health and education services.

The purchase of the necessary machinery and equipment was financed with external credit, and its object was the construction of access roads to the Atlantic and the upkeep of the existing road network. Owing to the size of this operation - which according to official sources amounted to 50 million dollars - it noticeably affected the main macroeconomic indicators: total supply and demand, the public sector finances and the balance of payments. Up to the end of the year, however, the major part of the machinery had not yet been utilized.

Capital transfers to the rest of the public sector and amortization of the debt also increased sharply, while financial investment declined for the third consecutive year.

/(b) Monetary

(b) Monetary trends

After permitting greater liquidity in 1976, the monetary authorities adopted a policy in 1977 designed to lessen the balance-of-payments disequilibrium and also to curb the possible inflationary effect of the rise in world prices of export commodities or the sharp increase envisaged in public investment. As a result of the measures adopted, the money supply increased by only 5%, that is, at a much lower rate than in 1976 (26%). On the other hand, quasi-money increased at a fairly high rate for the third year running (see table 15).

Credit to the private sector continued to be the predominant factor of expansion of domestic bank assets, growing by over 16% in the 12-month period ending in October 1977. The major part of this credit consisted of loans for importing raw materials, building up stocks, investing in rapidly negotiable assets and building dwellings.

In March 1977, Congress approved legislation for establishing a "financial free zone" in Nicaragua. This law authorizes the operation of banks, investment societies and other similar institutions that undertake international financial operations in foreign currency. Any banks established in Nicaragua under this legislation may not receive deposits, but may extend credit. They would be subject to an annual inspection by the Superintendency of Banks but not to the provisions of the Central Bank's monetary policy applicable to the country's intermediation system.

Table 15

NICARAGUA: MONETARY POSITION

	End-year balance (millions of córdobas)					Growth rates		
	1974	1975	1976	1976a/	1977a/	1975	1976	1977b/
<u>Money</u>	1 427	1 377	1 728	1 493	1 526	-3.5	25.5	5.0
Currency outside banks	452	445	436	501	565	-1.5	42.9	12.8
Demand deposits	964	913	1 064	926	931	-5.3	16.5	0.5
<u>Factors of expansion</u>	2 895	3 076	3 828	3 601	3 797	6.3	24.5	5.4
Foreign assets (net)	353	248	626	546	249	-29.7	152.4	-54.4
Domestic credit	2 542	2 828	3 202	3 055	3 548	11.3	13.2	16.1
Government (net)	-156	115	162	177	194	-	40.9	9.4
Official entities	44	53	69	63	80	20.5	30.2	27.0
Private sector	2 654	2 661	2 971	2 815	3 275	0.3	11.7	16.3
<u>Factors of absorption</u>	1 468	1 699	2 100	2 148	2 271	15.7	23.6	5.7
Quasi-money (savings and time deposits)	703	774	1 083	1 053	1 223	10.1	39.9	16.1
Bonds								
Long-term foreign borrowing	459	550	566	606	406	19.8	2.9	-33.0
Other items (net)	306	375	451	489	642	22.6	20.3	31.3

Source: International Monetary Fund, International Financial Statistics.

a/ January-October.

b/ October 1977 in relation to October 1976.

## PANAMA

### 1. The overall picture

Between 1973 and 1976 the economy of Panama experienced an uninterrupted decline in its rate of growth, contrasting with the rapid expansion of the previous decade. In 1977, however, a degree of reactivation was to be observed in some economic activities which contributed to increasing the gross domestic product by 2.5%. This rate was, however, somewhat less than population growth which meant that the per capita product decreased for the fourth consecutive year (see table 1).

The reactivation of the economy in 1977 was the result of the fairly promising growth of the agricultural sector and the food industry, and of increases in oil refining, the generation of energy and government activities.

Generally speaking, the recovery was not stimulated by domestic private demand, which decreased in absolute terms. While personal consumption was at a standstill, private investment dropped for the third year running. This performance is to be explained partly by the uncertainty which has existed for some years with regard to the result of the Panama Canal negotiations.

Public spending, particularly expenditure on investment, showed some dynamism with the increase in expenditure on basic infrastructure (communications, hydroelectric and port works), industrial projects and the extension of social services.

External demand increased slightly (1% in real terms), as a result of a moderate increase in sales of refined petroleum products, which more than offset the decrease in the volumes of exports of bananas and sugar, two of the traditional products of greatest importance.

The passivity of domestic demand, and especially the drop in private investment, continued to influence imports, the volume of which decreased by 5%.

Table 1  
PANAMA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 441	1 529	1 569	1 578	1 578	1 618
Population (millions)	1.54	1.59	1.63	1.68	1.72	1.77
Per capita gross domestic product (US dollars at 1970 prices)	955	965	963	942	916	913
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	5.3	6.1	2.6	0.6	-	2.5
Per capita gross domestic product	2.4	3.2	-0.2	-2.2	-2.8	-0.3
Gross income <u>b/</u>	6.9	4.1	-0.8	-1.7	-0.8	3.3
Terms of trade	4.4	-4.3	-8.1	-4.5	-3.5	-1.9
Current value of exports of goods and services	8.7	13.9	44.6	13.3	-5.6	7.9
Current value of imports of goods and services	12.2	11.4	56.7	8.5	-3.2	-0.6
Consumer price index						
December to December	6.7	9.7	16.6	1.8	3.3	9.2
Variation between annual averages	5.3	6.9	16.8	5.5	2.3	9.4
Wages and salaries	...	18.4	19.3	3.4	...	...
Rate of unemployment <u>c/d/</u>	...	...	7.1	8.3	8.4	7.8
Current income of government	9.2	13.7	20.6	9.5	8.6	17.3
Total expenditure of government	26.6	11.3	29.0	10.4	6.8	16.2
Fiscal deficit/total expenditure of government <u>c/</u>			50.6	33.7	32.6	32.0
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	-68	-64	-163	-141	-156	-87
Balance on current account	-107	-120	-234	-175	-203	-141
Variation in net international reserves	22	-3	-12	-23	17	...
External debt <u>e/</u>	215	297	359	427	510	614

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Percentage.

d/ Annual average in the metropolitan area, except in 1977 when the figure corresponded to the month of March.

e/ Balance of the external public debt, guarantee by the State (disbursed).

/The high



The high level of external dependence and the increase in the prices of imports, were elements which contributed to speeding up domestic inflation. Despite the price control policy which governed some basic products, the consumer price index increased by 9.4%. There are no indicators for the evolution of real wages for 1977; it is, however, probable that the inflationary process has restricted the redistribution policies which the government has been applying, as may be inferred from the stagnation of private consumption.

With regard to employment, only very partial data are available. The household surveys, however, show that the unemployment coefficient of the metropolitan area remained at 7.8% in March 1977, and was similar to that of the same month of the previous year.

In 1977 the Central Government continued to expand its activities. As in previous years, its current income increased appreciably, and allowed it to continue its policy of relative expansion through public spending, which increased by 16%. This figure, however, does not include expenditure by the enterprises, and consequently does not reflect all the effort made by the public sector to give impetus to the country's economic system. The fiscal deficit, which in 1974 amounted to slightly over 50% of total expenditure, has come to represent around one-third of this expenditure in the last three years (see table 1).

The balance on external current account, which dropped by slightly over 200 million dollars in 1976, decreased by 141 million dollars, while the balance of the external debt of the public sector continued to grow, and has more than doubled over the last four years, reaching nearly 615 million dollars in 1977.

Lastly, mention should be made of a political event with great repercussions not only in the country but also internationally: the virtual culmination of the long process of negotiations between the Government of Panama and the Government of the United States on the sovereignty of the Canal Zone and its control. The treaties regulating the gradual transfer

/of the

of the administration of the interoceanic route, at present in the stages of being ratified,<sup>1/</sup> will not only make changes in the structure of the ownership of the Canal but will have very positive repercussions on the economic activity of the country <sup>2/</sup> with the strengthening of the government's development policy.

During 1977, there were clear indications that, together with the political strategy which for some years now has been taking shape in the Canal negotiations, measures of an economic nature had been adopted in keeping with medium and long-term objectives. The most outstanding of these included the continued investment in energy infrastructure, ports, highways and sugar mills, and the project to mine and refine copper - which will have great repercussions at the beginning of the next decade - and some other industrial projects. There is also a top priority concern in government policy for problems of a social nature. A more widespread incorporation of the population in economic activities is being sought, and the public housing programme and the interest in standardizing health services and more advanced education are being continued.

## 2. Sectoral trends

### (a) Global trends

Following a period characterized by a very rapid annual growth, the rate of growth of the gross domestic product began to lose dynamism in 1974, when it increased (2.6%) less than the population. This trend was accentuated in 1975 and 1976 but reverted slightly in 1977, when global economic activity increased at a rate which barely allowed the per capita level of the product to be maintained (see table 1).

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<sup>1/</sup> On 7 September 1977, the documents which had already been ratified by Panama and which the United States Senate ratified in April 1978, were signed in Washington, D.C.

<sup>2/</sup> The ratification of the new agreements means that new prospects are opening up for Panama's economy. During the 23 years in which the Canal Treaty and other related agreements will be in force, the country will receive nearly 2,400 million dollars.

This slight recovery of domestic production activity was not the result of generalized stimuli arising out of global demand, but rather an effect of the clearing of some bottlenecks - in energy and other public services, for example - together with increased outputs, decreases in which in earlier years had made it necessary to complement domestic supply with imports, as was the particular case of some agricultural products and the food industry. The strengthening of some import substitution projects of a fairly sizeable nature in the industrial sector, also contributed to giving impetus to economic activity.

Imports again decreased considerably at constant prices (5% in the year), and reaffirmed the downwards trend begun in 1974. This shows that it had still not been possible to obviate the consequences of world inflation, apart from the repercussions of the reduction in private investment on the magnitude of imports (see table 2).

In demand, a slight recovery of the volume of exports of goods and services was to be observed, in response to the increase in exports of petroleum products, which is an activity intermediate between imports of crude oil and sales of the processed product.

With regard to investment, the decline of the capital formation levels of the private sector was repeated. It dropped nearly 10% compared with 1976 and 28% compared with 1970. Among the factors which influenced this downwards trend, mention should be made of the restraint on decisions to invest constituted by the uncertainty with regard to the outcome of the Panama Canal negotiations and the relative exhaustion of the possibilities offered by the traditional development model (based on exports of bananas, sales of services to the Canal Zone, activities in the Colón Free Zone, tourism, etc.), although the country continued to consolidate its position as an international financial centre. In the face of this situation, the government policy of promoting investment in new fields of activity (natural and energy resources and some industrial projects) meant that new sources of development were outlined.

/Table 2

Table 2  
PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Total supply</u>	<u>1 815</u>	<u>1 776</u>	<u>1 784</u>	<u>140.6</u>	<u>130.9</u>	<u>-0.8</u>	<u>-2.1</u>	<u>0.5</u>
Gross domestic product at market prices	1 330	1 330	1 363	100.0	100.0	0.6	-	2.5
Imports of goods and services <u>b/</u>	485	446	421	40.6	30.9	-4.9	-8.1	-5.3
<u>Total demand</u>	<u>1 815</u>	<u>1 776</u>	<u>1 784</u>	<u>140.6</u>	<u>130.9</u>	<u>-0.8</u>	<u>-2.1</u>	<u>0.5</u>
Domestic demand	1 290	1 284	1 286	103.3	94.4	-2.9	-0.4	0.2
Gross domestic investment	353	314	313	26.4	23.0	11.3	-11.1	-0.1
Gross fixed investment	339	327	320	24.4	23.5	24.5	-3.6	-2.0
Construction	186	193	188	12.2	13.8	30.0	3.7	-2.8
Machinery	153	134	132	12.2	9.7	18.3	-12.5	-0.9
Public	169	178	186	6.5	13.6	88.2	5.6	4.3
Private	170	149	134	18.0	9.9	-6.8	-12.7	-9.6
Changes in stocks	14	-13	-7	2.0	0.5			
Total consumption	937	970	973	76.9	71.4	-7.4	3.6	0.3
General government	216	221	225	14.3	16.5	8.0	1.9	2.1
Private	721	749	748	62.6	54.9	-11.2	4.1	-0.1
Exports of goods and services <u>b/</u>	525	492	498	37.3	36.5	4.4	-6.3	1.1

Sources: 1970-1976: CEPAL calculations on the basis of data supplied by the Statistics and Census Office;  
1977: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by CEPAL for the purpose.

/The reduction

The reduction in private investment was partly offset by the rate of public sector investment which continued to increase, although at a moderate rate (4%). The government endeavoured by this means to reach the targets of the National Development Plan 1976-1980, which aim at creating new sources of growth, and channelling external financing towards economic private investment which will allow a better use to be made of Panama's geographical situation.<sup>3/</sup>

As the result of the different trends in public and private investment, the structure of total investment changed substantially. While in 1970 public investment accounted for 27% of total investment and private investment for 73%, in 1977 the share of public investment increased to 58%, while that of private investment dropped to 42%.

Investment in construction dropped compared with the previous year (3%) with the decline in house-building by the private sector. This decrease was also influenced by government policy, which faced with increases in the prices of imported construction materials, reduced bank credits for the construction of luxury dwellings so as to devote more resources to more economical housing.

Although total consumption practically did not vary compared with the previous year, a difference in behaviour was to be observed between private and government consumption. While the former decreased slightly, following its reactivation in 1976, government consumption once again increased (2%). Since the value added of the government increased by 5.5%, the smaller increase in government consumption implied a considerable decrease in the purchase of non-personal goods and services, as the result of a policy to reduce this expenditure.

(b) Sectoral developments

In 1977 the evolution of the different sectors was somewhat dissimilar. The generation of energy, the agricultural sector, the Central Government sector, and manufacturing were the most dynamic sectors. Construction, however, declined in absolute terms, despite the increase in public investment, and trade, transport and financial activities experienced moderate growth (see table 3).

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<sup>3/</sup> In this respect particular mention should be made of the new airport of Tocumen, the containers' port, the fishing port and the oil pipeline.

Table 3

PANAMA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of balboas at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	226	225	238	20.7	19.7	4.8	-0.5	6.0
Mining	4	4	4	0.3	0.3	-5.7	6.1	-5.7
Manufacturing	171	168	175	15.8	14.5	-0.9	-1.7	4.5
Construction	76	79	76	6.3	6.3	20.4	3.4	-3.1
<u>Subtotal goods</u>	<u>477</u>	<u>476</u>	<u>493</u>	<u>43.1</u>	<u>40.8</u>	<u>4.7</u>	<u>-0.3</u>	<u>3.7</u>
Electricity, gas and water	32	34	36	2.0	3.0	9.4	5.7	7.3
Transport storage and communications	86	89	90	5.6	7.4	2.2	3.7	1.4
<u>Subtotal basic services</u>	<u>118</u>	<u>123</u>	<u>126</u>	<u>7.6</u>	<u>10.4</u>	<u>4.0</u>	<u>4.2</u>	<u>3.0</u>
Commerce, financial institutions and insurance	174	173	177	14.0	14.6	-	0.6	2.5
Real estate <u>b/</u>	81	81	83	5.9	6.9	3.2	0.4	2.3
Public administration and defence	42	43	46	3.1	3.8	10.0	3.9	5.5
Services to the Canal Zone	81	79	79	8.2	6.5	4.4	-2.2	-0.4
Miscellaneous services <u>c/</u>	219	205	205	18.1	17.0	-11.1	-6.3	-0.3
<u>Subtotal other services</u>	<u>597</u>	<u>581</u>	<u>590</u>	<u>49.3</u>	<u>48.8</u>	<u>-2.7</u>	<u>-2.5</u>	<u>1.3</u>
<u>Total gross domestic product d/</u>	<u>1 200</u>	<u>1 200</u>	<u>1 230</u>	<u>100.0</u>	<u>100.0</u>	<u>0.6</u>	<u>-</u>	<u>2.5</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office;  
1977: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

(i) The agricultural sector. The performance of the agricultural sector was different from that of 1976, since following a year of stagnation, crop production recovered very notably with a growth of 10%. Livestock production increased for the second year running, although at a much lower rate than in 1976 (see table 4).

The favourable result of crop production was influenced by a good harvest of grain crops; of these, rice increased by 23%, following a drop in 1976, and thus recovered the levels of the period 1974-1975. The evolution of maize production was still more favourable with an increase of 24%, which far exceeded that of previous years. This increase was influenced by the efforts made in supplying equipment, which made it possible to triple the harvest in the areas which had been mechanized.

The increases in beans, coffee and bananas were less significant. In coffee, favourable results began to be obtained with the programme to replant 4,600 hectares of previously unproductive coffee plantations with higher-yield varieties. It has been estimated that coffee production increased by nearly 4% more than the 1976 harvest, and was able to fill the export quota and satisfy domestic consumption.

Banana production showed a favourable performance during the first nine months of the year, but its decline in the last quarter determined an increase of only slightly 2%, similar to that of the previous year.

Unlike the above products, and according to the most recent estimates, the production of sugar cane decreased as a result of lack of stimulus to cutting because of the drop in prices in the international market. With regard to cocoa - a traditional export product - in view of the excellent prospects of the international market, a promotion programme was set in motion aimed at small and medium-level farmers, the results of which will be visible in a few years time. At the present time, production has stabilized at around 700 tons annually.

In the livestock sector, stocks of cattle have continued to increase moderately, poultry stocks more rapidly and pigs at a very high rate (13%) (see table 4).

/Table 4

Table 4  
PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977 <sup>a/</sup>
Agricultural production							
Crop farming	190.2	203.0	194.7	214.0	6.7	-4.1	9.9
Stock-raising	169.5	164.4	176.2	183.1	-3.0	7.2	3.8
Production of some important crops (thousands of quintals)							
Paddy rice <sup>b/</sup>	3 932	4 075	3 185	3 900	3.6	-21.8	22.5
Unmilled maize <sup>b/</sup>	1 309	1 438	1 410	1 750	9.9	-1.9	24.1
Dried beans	89	93	73	75	3.5	-21.4	3.2
Coffee	99	106	103	107	6.5	-2.9	3.7
Dried tobacco	18	25	28	...	38.4	15.5	...
Sugar cane (thousands of short tons)	1 899	2 122	2 642	2 500	11.7	24.5	-5.4
Bananas (thousands of tons) <sup>b/</sup>	1 575	1 749	1 779	1 812	11.1	1.7	1.8
Indicators of stock-raising production							
Stock:							
Cattle	1 333	1 348	1 361	1 374	1.1	1.0	0.9
Pigs	175	166	179	202	-5.1	7.8	12.7
Poultry	3 802	3 704	4 277	4 422	-2.6	15.5	3.4

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> 1974/1975, 1975/1976, 1976/1977 and 1977/1978 crop years.

/(ii) Mining.



(ii) Mining. The mining sector continued to have little importance in the generation of the value added. In 1977, it declined by nearly 6%, losing the impetus it had shown in 1976.

Although production is insignificant, mining in Panama will undergo a radical change in importance during the next five years as a result of the investment which is being programmed to make a rational use of copper resources. This will bring about an important change in the generation of foreign currency from exports while basic raw materials will also be available for developing the mining-industrial complex, the feasibility study for which is almost complete; it is based on the mining and processing of 33 million tons of ore per year, which will give an annual output of 190,000 metric tons of blister copper.<sup>4/</sup>

(iii) Manufactures. The manufacturing sector grew by nearly 5% in 1977 (see table 5). This growth, however, did not reflect a homogeneous performance in the different branches of the sector, since apart from oil-refining - which nearly recovered the level reached at the beginning of the decade - and food production, which increased by nearly 8%, the remaining activities remained at a standstill or declined, which in many cases meant decreases in production for the second or third year running. The growth of the food industry was particularly influenced by a larger output of sugar, milk products and fishmeal. Despite the drop in the production of sugar cane, the case of sugar can be explained by the new mills which came into operation. The processing plants for fishmeal, which in 1976 had increased their production by 85%, achieved a further increase of 34% in 1977.

Following a year in which the petroleum products industry was seriously affected by the crisis in prices which led to nearly complete paralyzation, it made a comeback in 1977. The cause of this was the opening-up of new export possibilities, as a result of which production increased to something like the high levels achieved in the years 1972 and 1973.

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<sup>4/</sup> The project to mine copper in Cerro Colorado is very important at the world level, and its implementation is linked with that of other related industries such as the sulphuric acid plant (with a daily capacity of 2,500 tons) and the phosphoric acid plant (300,000 tons annually), although in the latter case annual imports of 900 tons of phosphoric rock will be required.

Table 5  
PANAMA: INDICES OF THE VALUE ADDED OF MANUFACTURING  
(1970 = 100)

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977
<u>Total</u>	<u>114.8</u>	<u>113.9</u>	<u>112.0</u>	<u>117.1</u>	<u>-0.8</u>	<u>-1.7</u>	<u>4.6</u>
Foodstuffs	131.2	148.6	152.9	164.8	13.3	2.9	7.8
Beverages	115.0	119.4	132.2	129.4	3.8	10.7	-2.1
Tobacco	107.7	105.1	110.3	97.4	-2.4	5.0	-11.7
Footwear and clothing	100.0	100.0	84.3	69.7	-	-15.7	-17.3
Sawmills and other wood products	119.2	88.5	115.4	96.2	-25.8	30.4	-16.6
Furniture and accessories	107.7	118.7	109.9	104.4	10.2	-7.4	-5.0
Paper and paper products	123.6	131.9	98.6	84.7	6.7	-25.2	-14.1
Printing and related industries	60.6	39.4	36.7	34.9	-35.0	-6.8	-4.9
Leather and skin industries and products	160.0	140.0	200.0	160.0	-12.5	142.9	-20.0
Rubber products	133.3	166.7	133.3	133.3	25.1	-20.0	-
Chemical substances and products	108.6	174.3	171.4	185.7	60.5	-1.7	8.3
Petroleum products	...	...	...	...	...	...	...
Non-metallic mineral products except petroleum products	145.5	117.9	114.9	113.4	-19.0	-2.5	-1.3
Basic metal industries	66.7	33.3	66.7	66.7	-50.1	100.3	-
Metal products, except machinery and transport equipment	137.7	113.8	97.0	86.8	-17.4	-14.8	-10.5
Other manufacturing industries	131.7	154.0	138.1	130.2	16.9	-10.3	-5.7

Source: CEPAL, on the basis of data supplied by the Office of the General Controller of Panama.

<sup>a/</sup> Preliminary figures.

/The manufacture

The manufacture of beverages, second in importance in the structure of industry, dropped slightly, while the manufacture of non-metallic mineral products, metal products, paper, footwear and clothing, showed downward movements compared with the already depressed levels of the previous year.

Industrial activities involving construction materials also showed signs of recovery, owing to the intensive social housing programme in the public sector, which mitigated the effect of the drop in investment in private construction.

The government endeavoured to stimulate private investment by implementing projects with the joint participation of enterprises in the private sector. It is estimated that the enterprises which engaged in contracts with the public sector during the year programmed an investment of 18.5 million dollars in terms of extensions and the establishment of new industries. This investment was possibly influenced both by the fiscal incentives policy which the government continued to apply and the effects of the new stimuli announced at the end of 1976, which came into force in 1977. The main projects to which encouragement was given were the manufacture of glass bottles (which absorbed a large part of the investment), cement production, assembly of agricultural equipment, production of petroleum products, steel, explosives, cardboard containers and printing and lithography.

Lastly, with a view to using the wood for processing, an enterprise was set up with a mixed capital of 40 million dollars to develop the forests of Quipo, the output of which will be used in manufacturing pressed wood veneers.

(iv) Construction. In 1977, the construction product dropped by 3%, following increases of 20% and 3% during the two previous years. This drop showed that despite the government's efforts to promote and reactivate programmes for the construction of social housing at a rate similar to that of 1976, the private sector continued to be confronted with serious restrictions of resources for this purpose. Partial indicators show that there were very significant decreases in the area constructed and in employment, but the effort made in the construction of basic infrastructure continued to be substantial.

/(v) Electricity,

(v) Electricity, gas and water. The dynamism which has characterized the electricity, gas and water sector in recent years, however, continued in 1977. An increase of 7% reflected the intensive policy to use the country's hydroelectric potential, which is resulting in a rapid growth of energy generation, and as a result of which it has been possible to reduce the importance of thermoelectric plants in the total generation of energy from 93% to 63% in a few years.<sup>5/</sup>

The construction programme which is being carried out is aimed at attending to an energy demand with an annual growth of 11%, to which the electrical integration of the country, which has already made great strides, will also contribute.<sup>6/</sup> The planning of sectoral activities was strengthened by the restructuring of the electrification plan, which aimed at rationalizing the investment programme, the management of resources and the spending policy.

The financial situation of the Instituto de Recursos Hidráulicos y Electrificación (IRHE) was consolidated with the establishment of 21.5% increase in tariffs in 1977, consisting in a general adjustment of 10.5% plus a monthly adjustment of 1% as from February of that year. This increase in tariffs no doubt affected the general increase in consumer prices.

(vi) Other activities. In 1977 the moderate expansion of the transport, storage and communications sector continued.

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<sup>5/</sup> During 1977, the construction of the Bayano dam was completed (60 MW) thus bringing up the capacity to 330 MW. Construction continued on the hydroelectric power stations of La Estrella and Los Valles, which are expected to be completed in 1978. Their cost is estimated at 76 million dollars and they are expected to generate a further 80 MW. IDB and BIRF will provide financing for a sum of 140 million dollars for the La Fortuna hydroelectric power station, which will have a capacity of 255 MW. The access road to this project was also completed in 1977, and tenders have been requested for the construction of the civil structure.

<sup>6/</sup> The transmission line of the section Chorrera-Divisa was completed, thus completing the system of the central provinces: Herrera, Coclé, Los Santos and Veraguas. The Divisa-David section was begun, and will be completed in 1979, at a cost of 5.2 million dollars; the construction of the load clearance centre was completed and improvements have been made in the system of distribution for a sum of 7.5 million dollars.

Trade and finance grew at a rate of 2.5%, very similar to the rate of growth of the population. This increase was affected by the reactivation of agriculture. Lastly, the value added of the government sector increased at a rate of 5.5%, which was partly to be explained by the increase in staff (see table 3).

(c) Evolution of the employment situation

The scanty information available suggests that in 1977 there were no major changes in the employment situation. In the metropolitan area, where unemployment has traditionally been higher than in the rest of the country, the rate of unemployment in March was 7.8%, the same rate as that recorded a year previously (see table 6).

3. The external sector

(a) Trade in goods

(i) Exports. In 1977, exports of goods increased by only slightly over 1% (see table 7). This very small increase was mainly due to larger exports of petroleum products, although they did not recover from the drop of nearly 60% recorded in 1976.

The volume of exports of bananas slightly exceeded that of 1976, but with the opening-up of the European market it is expected that the country will make a better use of some possibilities of expansion in the near future. These exports, expressed in current prices, increased by less than 1% in 1977 owing to the drop in prices in the international market.

The decline in prices affected exports of sugar even more, since despite a large increase in the volume exported (28%) their value dropped by 22%. At the end of the year there was also a surplus of 90,000 tons of sugar for which it had not been possible to find a market owing to the weak position of the international market.

Exports of shrimps, growth of which was very dynamic in the previous two years, only increased by 5% in 1977, partly owing to the fact that the fishing fleet did not have the capacity for progressing to the capture of species which live at great depths.

Table 6

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT<sup>a/</sup>

	1974		1975		1976		1977
	March	October	March	November	March	August	March
<u>Rates of unemployment</u>							
National	5.6	5.8	6.5	6.4	7.2	6.5	...
Main cities							
Metropolitan Area	7.1	7.2	8.2	8.7	7.8	8.9	7.8
Rest of country	3.8	4.0	4.2	3.6	4.2	3.6	... <sup>a/</sup>
<u>Indexes</u>							
<u>National (1974=100)</u>							
Labour force	100.0		100.3		99.7		...
Employment	100.0		99.3		98.7		...
Unemployment	100.0		117.4		116.0		...

Sources: Sampling household survey, Statistics and Census Office, Panamá en cifras 1972 a 1976, and other data supplied by this Office.

a/ The survey of March 1977 was restricted to the metropolitan area, excluding the Canal Zone and the districts of Chepo and Santa Isabel.

Table 7

PANAMA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1973	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Main export products</u>	<u>171</u>	<u>246</u>	<u>199</u>	...	<u>78.7</u>	...	44.0	-19.2	...
Bananas	50	60	62	62	46.6	22.9	20.2	3.4	0.8
Petroleum	53	94	39	43	13.7	16.0	78.2	-59.1	12.5
Sugar	28	49	26	21	3.8	7.6	79.6	-46.8	-21.7
Shrimps	15	19	34	35	7.8	12.9	25.0	76.3	4.5
Other	26	24	39	...	6.8	...	-7.7	62.5	...
<u>Petroleum products to the Canal Zone</u>	<u>34</u>	<u>34</u>	<u>28</u>	<u>25</u>	<u>2.8</u>	<u>9.2</u>	2.1	-18.7	-10.4
<u>Other exports and re-export items to the Canal Zone</u>	<u>29</u>	<u>29</u>	<u>22</u>	...	<u>17.0</u>	...	0.3	-25.5	...
<u>Adjustements and other items</u>	<u>17</u>	<u>21</u>	<u>19</u>	...	<u>1.5</u>	...			
<u>Total</u>	<u>251</u>	<u>331</u>	<u>268</u>	<u>271</u>	<u>100.0</u>	<u>100.0</u>	<u>31.9</u>	<u>-19.1</u>	<u>1.3</u>

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

a/ Preliminary figures.

/Coffee exports

Coffee exports continued to be of little importance owing to the restrictions of an inadequate and inflexible supply. A programme to renew the coffee plantations is, however, being carried out, and could change the situation in the medium-term.

Exports of petroleum products outside the Canal Zone increased by 12.5% at current values, but their volume remained stationary for the same reasons as caused the drastic decrease recorded in 1976.<sup>7/</sup> It is estimated that with the creation of the "Petroterminal" in Puerto Armuelles,<sup>8/</sup> re-exports of petroleum will increase considerably and an appreciable margin for services will remain in the country. Petroleum will be carried in super-tankers from Alaska to Puerto Armuelles for transshipment to smaller capacity tankers which will transport it along the Atlantic coast of the United States through the Panama Canal; while the Puerto Armuelles installations are being completed, the transshipment of the petroleum will take place in the open sea.

Exports of petroleum products to the Canal Zone once again dropped sharply (see table 7). At present, their volume accounts for slightly less than half of exports in 1974. This decrease is partly due to the reduction in ship traffic through the Canal, which began in 1974, and had been becoming more accentuated in recent years. In the course of the year the Instituto Panameño de Comercio Exterior was created; this is an autonomous institution in charge of the promotion, development and diversification of exports. It

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<sup>7/</sup> The prices of crude oil acquired by the Panama refinery in the international market increased more than those of the petroleum refined in the Caribbean area and the United States, where Panama sells a large part of its exports. This means that when the price of exported refined oil is compared with that of imported crude oil, it can be seen that the margin of 3.24 dollars per barrel in 1973 dropped to 0.01 in 1974, 0.50 in 1975 and 0.30 in 1976, while the situation appears to have been aggravated in 1977.

<sup>8/</sup> A joint investment by COFINA and Dorthville, a North American enterprise which will contribute 75% of the 40 million dollar investment.



centralizes functions which were carried out by the Centro de Investigación y Promoción de Inversiones y Exportaciones (CIEPIEX), and the Department of International Trade of the Ministry of Trade and Industry.<sup>9/</sup>

(ii) Imports. During the first half of the year, compared with the same period of the previous year, the value of imports of goods increased by nearly 16%, with relatively similar growth rates for imports of consumer goods (20%), intermediate goods (15%) and machinery and equipment (17%) (see table 8). This trend appears to have been reversed in the second half of the year, as a result of a decline in purchases of crude oil.

The substantial recovery of imports of consumer goods, following a drop in the previous two years, was perhaps due to the increase in purchases of consumer durables, since no problems occurred in the domestic supply of current products which might explain the increases in imports of these goods.<sup>10/</sup> The increase in imports of capital goods was in keeping with the public spending already described.

(iii) The terms of trade. The terms of trade have been deteriorating since 1973 with the result that the index in 1977 was 20% lower than in 1972. The purchasing power of exports of goods during this period underwent a similar decrease (see table 9).

The decline in the terms of trade may be explained first of all by the increasing share of crude oil in the value of imports (which rose from less than 20% in 1972 to 35% in 1977), which is higher than that of sales of oil and petroleum products in total exports (17% in 1970 and 25% in 1977). Secondly, the terms of trade were also affected by the decrease in the prices of bananas, sugar and shrimps, whose unit export values as a whole dropped by 3.5%.

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<sup>9/</sup> CIEPIEX made a start on research to establish the export capacity of Panamanian industry, through surveys carried out by enterprises and by products, with the emphasis on possible non-traditional exports. The industries with export potential include concentrated tomato products, milk products, yeasts, tinned sardines, medicines, biscuits, meat products, wood veneers, etc.

<sup>10/</sup> Agriculture output increased by 10%, livestock by 4% and the product of the food industry by 8%.

Table 8

PANAMA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars					Percentage breakdown		Growth rates		
	1974	1975	1976	1976 <sup>a/</sup>	1977 <sup>a/</sup>	1973	1977 <sup>a/</sup>	1975	1976	1977 <sup>b/</sup>
Consumer goods	64	64	61	26	31	9.7	7.2	-1.4	-3.9	20.1
Intermediate goods	648	685	632	285	327	69.9	77.9	5.8	-7.7	14.9
Crude petroleum	286	347	246	109	148	19.4	35.2	21.6	-29.3	36.1
Others	362	338	387	176	179	50.5	42.6	-6.7	14.4	1.8
Capital goods	110	129	147	53	62	20.4	14.8	16.8	14.2	17.2
<u>Total</u>	<u>822</u>	<u>878</u>	<u>840</u>	<u>364</u>	<u>420</u>	<u>100.0</u>	<u>100.0</u>	<u>6.7</u>	<u>-4.3</u>	<u>15.6</u>

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

a/ First half of the year.

b/ First half of 1977 compared with the first half of 1976.

Table 9  
PANAMA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
	<u>Growth rates</u>					
Exports of goods						
Value	6.3	10.8	54.9	31.9	-19.2	1.3
Volume	-3.1	0.9	10.3	20.2	-21.0	-1.6
Unit value	9.7	9.9	40.3	9.8	2.4	3.0
Imports of goods						
Value	12.6	12.1	66.0	8.2	-4.7	-3.1
Volume	7.2	-2.4	8.7	-5.9	-10.2	-7.7
Unit value	5.1	14.9	52.8	15.0	6.1	5.0
Terms of trade	4.4	-4.3	-8.1	-4.5	-3.5	-1.9
	<u>Indexes (1970 = 100)</u>					
Terms of trade in goods	105.3	100.8	92.6	88.4	85.3	83.7
Purchasing power of exports of goods	104.7	101.0	102.4	117.5	89.6	86.5
Purchasing power of exports of goods and services	109.7	110.8	111.4	109.4	98.3	101.4

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/(b) Balance

(b) Balance of payments

The external situation improved slightly in 1977, owing to a reduction - of little importance, however - in the deficit of visible trade and an increase in the surplus of the services account. As a result, the deficit on current account dropped by slightly over 60 million dollars (see table 10). The balance of the servicing of external capital, increased slightly but did not exceed the levels achieved in 1973 and 1974, and both outflows of external investment income, and income from interest on loans to residents abroad increased to the same extent.

(c) The external debt

In 1977, the government's external debt reached the figure of 640 million dollars, which was 20% higher than in 1976. The new level was nearly three times higher than the accumulated debt at the end of 1972. The value of amortization and interest payments was 29% higher than in 1976 and for the second consecutive year increased more than the debt (see table 11).

Although the resources for servicing the external debt still remained at low levels compared with exports, this coefficient has increased rapidly over the last three years, from 4.5% in 1975 to 8% in 1977.

4. Prices

The annual average variations in prices, which reached their maximum in 1974 (16.8%), dropped over the next two years to 5.5% and 2.3% respectively. In 1977, however, there was a reactivation of inflation when consumer prices increased by 9.4% as the result of the effects of higher import prices.

The governments concern to improve the level of living of the lowest income level of the population by controlling the prices of the most basic foodstuffs contributed to the fact that the relative increase in this item was less (6.3%) (see table 12).

Table 10  
PANAMA: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
<b>Current account</b>						
Exports of goods and services	455	519	760	850	803	866
Goods FOB	146	162	251	331	268	271
Services	309	357	499	519	535	595
Transport	61	68	163	156	145	165
Travel	83	103	122	133	149	164
Imports of goods and services	523	583	913	991	959	953
Goods FOB	408	458	760	823	784	760
Services	115	125	153	168	175	193
Transport	59	68	90	100	95	102
Travel	26	27	31	32	36	46
Net payments of profits and interest on foreign capital	-36	-43	-57	-23	-34	-39
Profits	-14	-14	10	3	2	-
Interest	-22	-29	-67	-26	-36	-39
Net private transfer payments	-4	-13	-14	-11	-13	-15
Balance on current account	-107	-120	-234	-175	-203	-141
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	107	120	234	175	203	141
(a) Net external non-compensatory capital	429	992	1 157	475	1 285	141
Direct investment	14	35	34	10	7	
Long- and medium-term loans	146	174	189	201	773	
Amortization payments	-32	-60	-108	-46	-61	
Short-term liabilities	292	834	1 032	303	558	
Official transfer payments	9	9	10	7	8	141
(b) Domestic non-compensatory capital or assets	-241	-769	-811	-226	-932	
(c) Errors and omissions	-63	-106	-126	-97	-133	
(d) Allocation of SDRs	4	-	-	-	-	
(e) Net compensatory financing						
(minus sign signifies an increase)	-22	3	12	23	-17	...
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	9	12	29	
Amortization payments	-	-	-	-	-	...
Variation in gross international reserves						
(minus sign signifies an increase)	-22	3	3	10	-46	...
Foreign exchange reserves						
(minus sign signifies an increase)	-18	3	-7	15	-47	...
Gold reserves						
(minus sign signifies an increase)	-4	-	10	-	-	...
SDRs						
(minus sign signifies an increase)	-	-	-	-5	1	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;

1977: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama, Statistics and Census Office.

Table 11

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars at current prices)

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
Public debt and debts guaranteed by the State <sup>b/</sup>	214.9	296.9	358.9	427.4	510.2	614.0
Servicing of external debt	23.8	28.2	41.8	38.2	53.4	69.1
Amortization payments	10.1	11.4	8.7	9.3	17.0	27.8
Interest payments	13.7	16.8	33.1	28.9	36.4	41.3
Servicing of external debt, as a percentage of total exports	5.2	5.4	5.6	4.5	6.7	8.0

Source: Office of the Controller-General of Panama, statistics and Census Office.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Disbursed.

Table 12

PANAMA: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1972	1973	1974	1975	1976	1977
<u>Variation from December to December</u>						
Consumer price index	6.7	9.7	16.6	1.8	3.3	9.2
Food	4.4	17.8	21.1	-0.4	4.0	6.2
Wholesale price index	6.2	18.7	27.0	12.3	3.8	7.7 <sub>a/</sub>
Imported products	4.6	20.2	25.1	9.7	3.5	9.0 <sub>a/</sub>
Agricultural products	4.5	12.7	28.9	10.8	6.5	5.4 <sub>a/</sub>
Manufactures	8.3	19.6	27.9	15.1	3.2	7.6 <sub>a/</sub>
<u>Variation between annual averages</u>						
Consumer price index	5.3	6.9	16.8	5.5	2.3	9.4
Food	4.6	9.8	22.8	6.8	1.2	6.3
Wholesale price index	8.5	10.5	30.2	14.0	7.8	6.5 <sub>b/</sub>
Imported products	6.7	11.6	28.8	12.5	5.8	8.7 <sub>b/</sub>
Agricultural products	4.0	9.1	23.8	20.3	6.4	4.7 <sub>b/</sub>
Manufactures	11.9	10.1	33.7	13.3	9.9	5.5 <sub>b/</sub>

Sources: Statistics and Census Office, Panamá en cifras 1972-1976 and Estadísticas panameñas, Indicadores económicos y sociales, Bulletin 749 and 761.

a/ Variation between September 1976 and September 1977.

b/ Variation between the averages for January, June and September 1976 and the same months in 1977.

/With regard

With regard to wholesale prices - although data for the whole year is not available - if the September levels for the last two years are compared, it may be observed that while agricultural products increased by 5.4%, manufactures increased by 7.6%, also as the result of the greater effect on them of increases in imported inputs.

#### 5. Monetary trends

The strengthening of the international financial centre which resulted from the banking law of 1970,<sup>11/</sup> has continued rapidly in recent years. Sight deposits and particularly time deposits in the banking system grew considerably, encouraged by this law which, in addition to other incentives, gives great freedom of movement to capital established in Panama.

The deposits as a whole increased from 740 million dollars in 1970 to 8,900 million dollars in 1976 and 11,500 million dollars in 1977, which gives a more than fifteen-fold increase in the present decade to date and a 30% increase over the last year. One of the most particular causes of the above was the increase in external deposits, which grew from 400 million dollars in 1970 to 10,350 million dollars over the last year (some twentyeight-fold) and increased 31% in 1977 (see table 13).

These trends determined the notable dynamism of the variables of the banking system, and probably the growth of monetary supply tends to accentuate, or at least maintain, the inflationary pressures of external origin with which the Panamanian economy has been faced.

It is, however, considered that this did not have any significant effect on the internal order, since the great majority of deposits were channelled systematically and increasingly towards financing the activities of residents abroad; however, the sums given over to financing domestic development were very small. In 1970, of the total credit granted by the banking system, nearly 60% was earmarked for domestic activities, while in 1976 this percentage was only 19% (see table 14). Despite this, a comparison

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<sup>11/</sup> See the notes on Panama in CEPAL, Economic Survey of Latin America, issues of 1971 and 1976.



Table 13

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

(Millions of balboas)

	Balance at end-of each year			
	1974	1975	1976	1977 <sup>a/</sup>
<b>Assets</b>	<b>6 475</b>	<b>8 433</b>	<b>9 865</b>	<b>12 408</b>
<b>Liquidity</b>	<b>1 800</b>	<b>2 156</b>	<b>3 132</b>	<b>3 695</b>
Cash holdings	38	45	39	47
Sight deposits in banks and agencies	197	203	127	286
By foreign banks <u>b/</u>	191	164	81	162
By local banks <u>c/</u>	6	39	46	124
Time deposits in banks and agencies	1 437	1 532	2 405	2 873
By foreign banks	162	1 198	1 937	2 444
By local banks	75	163	188	296
By agencies	200	170	280	133
Deposits in IMF	14	20	18	17
Other assets	121	355	542	472
<b>Investment</b>	<b>4 423</b>	<b>6 067</b>	<b>6 490</b>	<b>8 238</b>
Loans and discounts	4 333	5 987	6 371	8 135
Securities	90	81	119	103
<b>Others</b>	<b>243</b>	<b>210</b>	<b>243</b>	<b>475</b>
<b>Liabilities and capital</b>	<b>6 475</b>	<b>8 433</b>	<b>9 865</b>	<b>12 408</b>
<b>Sight deposits</b>	<b>451</b>	<b>406</b>	<b>644</b>	<b>582</b>
By the private sector	191	170	186	240
By the public sector	68	46	42	76
By foreigners	62	96	129	121
By foreign banks <u>b/</u>	129	68	250	108
By local banks		24	37	37
<b>Time and limited-access deposits</b>	<b>5 572</b>	<b>7 495</b>	<b>8 236</b>	<b>10 967</b>
By the private sector	415	465	498	588
By foreigners	549	1 046	1 179	1 283
By foreign banks <u>b/</u>	4 508	5 839	6 327	8 841
By local banks	100	145	232	255
<b>Liabilities in respect of banks and international agencies</b>	<b>78</b>	<b>108</b>	<b>582</b>	<b>174</b>
<b>Other liabilities, capital and reserves</b>	<b>374</b>	<b>425</b>	<b>404</b>	<b>685</b>

Source: CEPAL, on the basis of figures supplied by the Statistics and Census Office, Office of the Controller General of Panama.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Including banks and agencies in the Panama Canal Zone.

<sup>c/</sup> Including deductions from liabilities.

Table 14  
PANAMA: ALLOCATION OF LOANS GRANTED BY THE BANKING SYSTEM  
(Millions of balboas)

	1970	1971	1972	1973	1974	1975	1976	At end of June	
								1976	1977
<b>Total</b>	<b>942</b>	<b>1 512</b>	<b>2 233</b>	<b>3 686</b>	<b>8 995</b>	<b>8 846</b>	<b>10 498</b>	<b>5 635</b>	<b>4 338</b>
To residents abroad	392	647	1 228	2 293	6 942	6 938	8 516	4 696	3 379
Personal consumption	66	94	121	195	307	141	114	54	35
Production	431	628	756	976	1 382	1 174	1 235	601	586
Agriculture	37	59	78	101	127	151	133	75	88
Manufacturing	40	85	93	92	166	205	205	97	106
Commerce	354	484	584	783	1 089	818	897	429	392
Housing and other construction	44	81	91	157	267	331	245	124	138
Unclassified and others	8	62	37	65	97	262	388	160	199

Source: Statistics and Census Office, Hacienda pública y finanzas, serie E, N° 1, 1974, and other data prepared by this Office.

of the first half of 1976 with the first half of 1977 shows a slight increase in this share (17% and 22% respectively), which could indicate the reversion of this trend.

The combination of the rapid growth of deposits and the more moderate but still dynamic growth of credit activity resulted in an expansion of the liquidity of the banking system (18%), which again was mainly channelled towards the exterior in the form of sight deposits and time deposits in banks and agencies (see table 14).

In credit activity, the balance of investment in the banking system showed an increase of 27%, which could be attributed to loans and discounts, the majority of which, as has already been observed, are invested abroad. Investment in securities dropped by 13%.

From another point of view, the amounts of new loans granted at June 1977, compared with the same period of the previous year, showed a drop of 23%, which is explained by the decrease in credits to residents abroad. At the domestic level, the sector most affected by the reduction in credit was the trade sector, the financing of which dropped by 9% compared with figures for the same period of the previous year.

#### 6. Fiscal policy

The State has followed the strategy of containing the growth of current expenditure, by concentrating expansion on capital expenditure, through the implementation of large-scale investment projects. This policy indicates the basis on which the future development of Panama will rest. It is estimated that when the projects discussed below are completed, the structure of the apparatus of production will change, since there will be more diversification and better possibilities for a constant and stable growth.

In 1977, the government maintained consumer expending at levels in keeping with the growth of current income. This increased by 17%, while expenditure grew by 11%, with the result that the savings on current account more than doubled (see table 15).

Table 15

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
1. <u>Current income</u>	271	297	323	379	9.5	8.6	17.3
Tax revenue	210	227	224	281	8.1	-1.3	25.4
Direct	100	114	108	130	14.0	-5.3	20.4
Indirect	110	113	115	151	2.7	1.8	31.3
Non-tax revenue	54	64	58	62	18.5	-9.4	6.9
Other current income	7	6	41	36	-14.3	583.3	-12.2
2. <u>Current expenditure</u>	254	280	308	341	10.2	10.0	10.7
Wages and salaries	152	170	178	195	11.8	4.7	9.6
Other current expenditure	102	110	130	146	7.8	18.2	12.3
3. <u>Saving on current account (1-2)</u>	17	17	15	38	-	11.8	153.3
4. <u>Capital expenditure</u>	153	168	171	216	9.8	1.8	26.3
Fixed capital, financial investment and transfers	133	145	143	180	9.0	-1.4	25.9
Amortization of the debt	20	23	28	36	15.0	21.7	28.6
5. <u>Total expenditure (2+4)</u>	407	448	479	557	10.4	6.8	16.2
6. <u>Fiscal deficit (or surplus) (1-5)</u>	-206	-151	-156	-178			
7. <u>Financing of deficit</u>	206	151	156	178	-26.7	3.3	14.1
Domestic financing	133	78	66	57	-41.4	-15.4	-13.6
External financing	73	73	90	121	-	23.3	34.4

Source: CEPAL, on the basis of data supplied by the Office of the Controller General of Panama.

a/ Preliminary figures.

/The increase

The increase in current income was mainly due to the increase in tax earnings, both direct and indirect, since non-tax earnings grew more moderately. The increase in indirect taxes partly originated in the entry into force of a new tax on transactions in real estate and a 5% tax on imports and the domestic value added.

During 1977, formulae continued to be sought for improving administrative efficiency and the provision of public services. The integration process is well advanced, under the joint management of the health systems, which were the responsibility of the Ministry of Health and the Social Security Fund. At the same time, decentralization by provinces has started, and increased the operational capacity and efficiency both of drinking water and sewerage services and of nutrition programmes. In educational matters, important changes also took place; the educational reform begun in 1971 continued; this was aimed at making compulsory the basic cycle of nine grades instead of six.<sup>12/</sup>

Capital spending increased by 27%. Mention should be made here of the impetus given to important projects connected with production activities such as the sugar mills and the cement plant. The implementation continued of other projects already started, such as the new airport which will come into service in the first months of 1978, which represents an investment of 72 million dollars. This would be complemented by an airfreight terminal which will be financed by the airlines operating in Panama. Work was carried out on the fishing port of Vancamonte, with an investment of 14 million dollars. The work which had been taking place in the Bahía de las Minas for the container port was, however, suspended, since Cocosolo - the most appropriate site for locating the port - will come under Panamanian jurisdiction as the result of the ratification of the Canal Zone treaties.

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<sup>12/</sup> The reform also includes the extension of the teacher training college of Veraguas and the creation of four professional and technical institutes. Regional university centres are also being set up.

The construction of the Pan American highway continued on the Isthmus of Darién, and nearly two-thirds of it have now been completed; in the rural development roads programme 250 kilometers were completed with a credit of 43 million dollars.

Lastly, considerable progress was made on the studies and design for the copper project, which have absorbed a great quantity of financial resources. In electrical energy, as has already been said, notable efforts were also made, both in the increase in the installed capacity and in the change from thermoelectric to hydroelectric sources of energy.

Despite the increase in savings on current account, the expansion of capital expenditure contributed to increasing the deficit on public account by 14%; its financing depended more heavily on external savings - mainly of private origin - while internal credit again declined (see table 15). Mention should be made here of the continuing growth of the resources earmarked for amortizing the public debt, which increased by 22% in 1976 and 29% in 1977.

## PARAGUAY

### 1. The overall picture

There was a marked increase in the rate of growth of the Paraguayan economy in 1977, even though expansion had been strong and continuous since 1973. In 1977 overall growth reached almost 12% and the per capita product rose by 8.5%. In addition, a substantial improvement in the terms of trade produced a much higher rise (15%) in gross income than in the domestic product (see table 1).

In sectoral terms, the greater expansion of the economy was due to rapid growth in the goods-producing sectors (14%), particularly manufacturing and construction. Agriculture also expanded at a very rapid rate, especially as a result of the rises in some export crops such as cotton and soya beans. The service sectors, for their part, continued to grow at the moderate rates of the preceding year.

At current values exports increased by the unprecedented amount of almost 50%, due to a considerable rise in volume and a marked increase in unit values. Among products with substantial increases in sales abroad cotton and soya beans were outstanding, amounting for 50% of the total value of exports, as against only 18% in 1973.

Imports increased at a rate similar to that of exports in value terms, stimulated by strong growth in domestic consumption and an even greater increase in investment.

Prices rose faster than in the preceding year, growing by more than 9% compared with 4% in 1976. The means of payment increased by more than 31%, and a favourable trend in government income produced a fiscal surplus which contrasted with the large deficit of the previous year.

The marked rise in imports of goods and services led to a substantial increase in the deficit on current account. Nevertheless, as a result of a large inflow of non-compensatory capital the balance of payments recorded a surplus, which in turn produced a new rise in international reserves of the order of 110 million dollars. The disbursed foreign debt rose from 456 million dollars to 518 million dollars between the end of 1976 and December 1977.

Table 1  
PARAGUAY: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	892	962	1 042	1 094	1 177	1 314
Population (millions)	2.43	2.50	2.57	2.65	2.73	2.81
Gross per capita domestic product (US dollars at 1970 prices)	367	385	405	413	432	468
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	5.1	7.8	8.3	5.0	7.5	11.7
Gross per capita domestic product	2.3	4.9	5.3	2.1	4.4	8.5
Gross income <sup>b/</sup>	5.7	11.5	6.8	3.5	7.7	14.9
Terms of trade	3.1	28.4	-11.8	-10.8	4.0	26.2
Current value of exports of goods and services	18.8	40.6	38.9	1.4	0.5	49.3
Current value of imports of goods and services	-2.6	52.0	55.9	19.5	-0.7	48.3
Consumer price index						
December to December	9.5	14.1	22.0	8.7	3.4	9.4
Annual average variation	9.2	12.8	25.2	6.7	4.5	9.4
Money	20.0	32.6	21.0	17.9	21.1	31.6
Current income of government	6.4	22.3	40.0	10.0	7.5	37.3
Total government expenditure	11.8	9.7	30.4	24.6	22.6	13.1
Fiscal deficit/total government expenditure <sup>c/</sup>	9.3	-1.2	-8.9	3.8	15.4	-2.4
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance, goods and services	-1	-12	-44	-90	-87	-127
Balance on current account	-9	-20	-57	-94	-98	-141
Variation in net international reserves	9	21	30	29	40	111
Disbursed foreign debt	192	219	272	332	456	518

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Percentage.



## 2. Recent economic trends

### (a) Total supply and demand

As already noted, the economy expanded strongly in 1977. The gross domestic product rose by 11.7%, almost double the rate recorded between 1971 and 1975 and well above both the substantial increase of 7.5% in the previous year and the average annual increase, also of 7.5%, laid down in the Development Plan for 1977-1981.

Total supply expanded by over 15%, i.e., more than the gross domestic product, as a result of a substantial rise (about 40%) in the volume of imports, in marked contrast to their stagnation the previous year. As a result of this trend, the import ratio was considerably higher in 1977 than in 1970 (see table 2).

Significant in total demand was the 14% rise in the volume of exports, which contrasted with the stagnation of previous years. The export coefficient, however, dropped from 15% in 1970 to less than 12% in 1977.

Despite the distinctly favourable trend of external demand, the strongest element in total demand was again domestic demand, basically as a result of the trend of investment. Gross fixed investment rose by more than 28%, thus continuing its sustained growth of recent years. This expansionist trend is closely linked with the large-scale hydroelectric schemes embarked upon by Paraguay in conjunction with Brazil and Argentina, and has led to a marked upward trend in the ratio of fixed investment to gross domestic product from less than 15% in 1970 to more than 31% in 1977 (see table 2).

Total consumption also rose very fast in 1977, increasing by more than 13% in contrast with the rise of less than 2% recorded in 1976. Both government and private consumption recorded high rates of increase.

### (b) Growth of the main sectors

In 1977 total activity in the goods-producing sectors improved considerably over the previous year, the 1977 rate of 14% being more than twice the 1976 rate (6%). The basic services and other services sectors also recorded substantial rises, though these were very similar to the 1976 rates (see table 3).

Table 2  
PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977a/	1970	1977a/	1975	1976	1977a/
<b>Total supply</b>	<b>119 385</b>	<b>126 976</b>	<b>146 830</b>	<b>116.1</b>	<b>121.2</b>	<b>5.5</b>	<b>6.4</b>	<b>15.3</b>
Gross domestic product at market prices	100 844	108 423	121 109	100.0	100.0	5.0	7.5	11.7
Imports of goods and services b/	18 541	18 553	25 721	16.1	21.2	8.0	0.1	38.6
<b>Total demand</b>	<b>119 385</b>	<b>126 976</b>	<b>146 830</b>	<b>116.1</b>	<b>121.2</b>	<b>5.5</b>	<b>6.4</b>	<b>15.3</b>
Domestic demand	106 970	114 599	132 726	101.2	109.6	6.2	7.1	15.8
Gross domestic investment	25 231	31 440	38 576	14.7	31.9	22.8	24.6	22.7
Gross fixed investment	22 643	29 533	37 862	14.5	31.3	19.3	30.4	28.2
Construction	10 171	12 157	...	7.3	...	21.4	19.5	...
Machinery and equipment	12 472	17 376	...	7.2	...	17.6	39.3	...
Changes in stocks	2 588	1 906	714	0.2	0.6	65.9	-26.4	-62.5
Total consumption	81 739	83 159	94 150	86.5	77.7	1.9	1.7	13.2
General government	7 701	7 843	8 870	9.0	7.3	22.4	1.8	13.1
Private	74 038	75 316	85 280	77.5	70.4	0.2	1.7	13.2
Exports of goods and services b/	12 415	12 377	14 104	14.9	11.6	-0.3	-0.3	14.0

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

Table 3

PARAGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of guaraníes at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977a/	1970	1977a/	1975	1976	1977a/
Agriculture	31 599	33 167	36 286	34.3	32.0	3.9	5.0	9.4
Mining	286	404	502	0.1	0.4	26.5	41.4	24.1
Manufacturing	15 559	16 407	19 197	17.3	16.9	-2.0	5.5	17.0
Construction	3 918	4 608	6 067	3.0	5.3	21.1	17.6	31.7
<u>Subtotal goods</u>	<u>51 362</u>	<u>54 586</u>	<u>62 052</u>	<u>54.7</u>	<u>54.7</u>	<u>3.2</u>	<u>6.3</u>	<u>13.7</u>
Electricity, gas and water	1 801	2 224	2 668	1.2	2.4	17.9	23.4	20.0
Transport, storage and communications	4 719	5 071	5 477	4.2	4.8	13.8	7.5	8.0
<u>Subtotal basic services</u>	<u>6 520</u>	<u>7 295</u>	<u>8 145</u>	<u>5.4</u>	<u>7.2</u>	<u>14.9</u>	<u>11.9</u>	<u>11.7</u>
Commerce, financial institutions and insurance	18 269	20 120	21 930	19.5	19.3	4.4	10.1	9.0
Real estate b/	2 913	3 149	3 325	3.3	2.9	7.2	8.1	5.6
Community, social and personal services c/	15 371	16 404	17 955	17.1	15.8	8.5	6.7	9.5
<u>Subtotal other services</u>	<u>36 553</u>	<u>39 673</u>	<u>43 210</u>	<u>39.9</u>	<u>38.1</u>	<u>6.3</u>	<u>8.5</u>	<u>8.9</u>
<u>Total gross domestic product d/</u>	<u>93 461</u>	<u>100 485</u>	<u>112 242</u>	<u>100.0</u>	<u>100.0</u>	<u>5.0</u>	<u>7.5</u>	<u>11.7</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.

1977: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

d/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

/The agricultural

The agricultural sector showed greater dynamism than in previous years, expanding by more than 9%. Agricultural production, stimulated by external demand and by policies designed to promote certain export crops, improved by 14%, basically as a result of big rises in the volume of cotton and soya bean output, which increased by 112 and 25% respectively (see table 4). The stock-raising sector grew by more than 5% as against a rise of less than 4% the previous year.

Manufacturing, stimulated by a substantial rise in domestic and external demand, raised production in 1977 by 17%. The basic stimulus was strong growth in the output of the textiles, clothing and leather branch (39%), the outstanding feature within that branch being the higher output of cotton fibres (more than 115%). Substantial increases were also recorded in the output of tinned meat (40%), sugar (37%), cement (29%), tung oil (22%) and wheat flour (19%) (see table 5).

Construction made further substantial progress in 1977, as is indicated by its rate of increase of 32%.

### 3. The external sector

#### (a) Foreign trade

In value terms, exports rose by almost 54% in 1977. This was in marked contrast with the relative stagnation of 1975 and 1976, and was well above the substantial growth rate recorded between 1972 and 1974. There was a significant increase in volume (14%), but the greatest improvement was in unit values, which rose by about 35% (see table 6).

This marked improvement in exports in 1977 was basically due to bigger sales of cotton and soya beans (133% and 75% higher, respectively), and also to substantial rises for certain traditional export products such as timber and vegetable oils (see table 7).

As a result of the exceptional growth in exports of soya beans, and still more of cotton, and the sharp drops in sales of meat recorded in 1975 and 1976, the structure of exports has altered radically in recent years. Sales of meat, which even as recently as 1973 made up a third of the value of exports of goods, accounted for only 8% in 1977. The combined share of sales of soya beans and cotton in total exports, in contrast, rose over the same period from a fifth to almost half (see table 7).

Table 4

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977a/	Growth rates		
					1975	1976	1977a/
<u>Indexes of agricultural production b/</u> (1972 = 100)							
Crop farming c/	124.1	126.9	134.5	147.1	3.9	5.0	9.4
Stock-raising	108.8	112.9	117.0	123.2	3.7	3.6	5.3
<u>Production of some important crops</u> (thousands of tons)							
Cotton	85.0	100.0	105.0	222.5	17.6	5.0	111.9
Rice	35.0	50.0	52.0	36.4	42.9	4.0	-30.0
Sweet potatoes	183.7	178.2	187.1	196.5	-3.0	5.0	5.0
Cassava	814.2	862.6	867.5	876.2	-3.5	0.6	1.0
Maize	281.5	337.8	344.2	372.2	20.0	1.9	8.1
Soya beans	190.0	220.0	280.0	350.0	15.8	27.3	25.0
<u>Indicators of stock-raising production</u> (thousands of head)							
Number of livestock	5 871.0	6 018.0	6 108.0	6 181.0	2.5	1.5	1.2
Number of animals slaughtered	577.9	498.3	537.3	635.3	-13.8	7.8	18.2

Source: Central Bank of Paraguay, División de Cuentas Nacionales, División de Producción, precios y Mercado Interno.

a/ Preliminary figures.

b/ Indexes of physical volume and gross value of production.

c/ Excluding forestry, hunting and fishing.

Table 5

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<u>Index of manufacturing production</u> (1972 = 100)	117.0	114.7	120.9	141.5	-2.0	5.5	17.0
Food, beverages and tobacco	104.5	96.0	100.7	116.0	-8.2	4.9	15.3
Textiles, clothing and leather	121.2	119.1	122.2	169.4	-1.7	2.6	38.6
Wood and furniture	147.4	163.5	144.8	179.0	11.0	-11.4	23.6
Paper and printing	109.5	126.2	123.8	144.3	15.2	-2.0	16.7
Chemicals	106.8	115.1	135.9	152.8	7.8	18.1	12.4
Non-metallic minerals other than oil and coal	124.9	152.2	175.9	206.8	21.8	15.6	17.6
Basic metals	98.4	106.8	146.0	151.3	8.5	37.7	3.6
Metal products, machinery and equipment	113.4	114.2	177.5	142.2	0.7	55.4	-19.9
<u>Production of some important manufactures</u> (thousands of tons)							
Cotton fibres	24.1	32.2	33.8	72.8	33.5	5.1	115.5
Tannin	6.3	14.1	17.9	13.1	124.8	27.0	-26.7
Tung oil	12.5	12.9	15.7	19.1	3.3	21.6	21.7
Cement	102.8	137.7	154.8	199.7	34.4	12.4	29.0
Sugar	70.4	51.9	56.5	77.2	-26.3	8.9	36.7
Wheat flour	50.0	37.7	50.0	59.1	-24.6	32.2	18.8
Hides and skins	14.4	12.5	13.3	14.7	-13.8	6.6	10.4
Tinned meat	13.6	8.9	8.5	12.0	-34.8	-4.1	40.2

Sources: Central Bank of Paraguay, División de Cuentas Nacionales and División de Producción, Precios y Mercado Interno; Ministry of Finance, Dirección General de Estadísticas y Censos, Anuario Estadístico.

<sup>a/</sup> Preliminary figures.

Table 6

PARAGUAY: MAIN FOREIGN TRADE INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<u>Growth rates</u>						
Exports of goods						
Value	29.1	49.5	35.1	2.0	2.8	53.9
Volume	15.8	3.8	3.8	1.8	3.1	14.3
Unit value	11.5	44.0	30.1	0.2	-0.4	34.8
Imports of goods						
Value	-4.8	61.8	55.8	14.6	1.2	51.3
Volume	-12.1	44.1	5.6	1.8	5.8	41.6
Unit value	8.2	12.2	47.6	12.5	-4.4	6.9
Terms of trade	3.1	28.4	-11.8	-10.8	4.0	26.2
<u>Indexes (1970 = 100)</u>						
Terms of trade	105.2	135.1	119.1	106.2	110.5	139.4
Purchasing power of exports of goods	118.8	157.0	143.8	130.4	139.9	201.7
Purchasing power of exports of goods and services	106.2	135.5	134.1	122.0	124.2	172.7

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

Table 7

PARAGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977a/	1973	1977a/	1975	1976	1977a/
Main traditional export products	84.6	82.7	65.1	85.1	52.3	30.5	-2.3	-21.3	30.7
Meat products	35.2	32.2	21.0	22.1	31.9	7.9	-8.5	-34.8	5.2
Timber	24.7	27.9	12.1	19.9	9.3	7.1	13.0	-56.6	64.5
Vegetable oils a/	13.3	10.6	17.3	29.4	5.2	10.5	-20.3	63.2	69.9
Tobacco	11.4	12.0	14.7	13.7	5.9	4.9	5.3	22.5	6.8
New exports	45.5	53.0	75.6	146.8	20.3	52.6	16.5	42.6	94.2
Soya beans	15.0	17.5	32.2	56.2	8.2	20.2	16.7	84.0	74.5
Cotton	16.5	20.1	34.6	80.5	9.1	28.8	21.8	72.1	132.7
Sugar	10.0	6.7	1.0	-	0.9	-	-33.0	-85.1	...
Coffee	4.0	8.7	7.8	10.1	2.1	3.6	117.5	-10.3	29.5
Other exports	39.7	41.0	41.1	47.0	27.4	16.9	3.3	0.2	14.4
<u>Total</u>	<u>169.8</u>	<u>176.7</u>	<u>181.8</u>	<u>278.9</u>	<u>100.0</u>	<u>100.0</u>	<u>4.1</u>	<u>2.9</u>	<u>53.4</u>

Source: Central Bank of Paraguay.

a/ Preliminary figures.

/There was



There was also a rapid change in imports in 1977. Global preliminary estimates indicate an increase of over 50% in value, due to rises of 42% in volume and 7% in unit value.

The changes in unit values of both exports and imports of goods led to a significant improvement in the terms of trade. In 1977 the terms of trade index (1970=100) rose above the very favourable level of 1973, easily offsetting the falls of 1974 and 1975 (see table 6).

(b) Balance of payments

In 1977 there was a deficit of about 70 million dollars on trade in goods (about 20 million dollars higher than the figures for 1975 and 1976) which, together with the sharp rise in imports of services, led to a deficit on the goods and services account of the order of 130 million dollars. Taking into account the effects of changes in net payments of profits and interest on foreign capital and income from net private transfer payments, there was a current account deficit of about 140 million dollars, which was more than in 1975 and 1976 and much higher than the figures for the period 1972-1974 (see table 8).

Despite this trend in the current account, the substantial rise in inflows of non-compensatory capital, which exceeded 250 million dollars, gave a final surplus in the balance of payments of the order of 111 million dollars, producing a similar increase in net international reserves.

(c) Foreign debt

During 1977 the foreign debt rose by about 14%, so that at the end of the year the total debt was almost double that of only three years earlier. Debt servicing grew even faster (about 34%). Nevertheless, as a result of the extraordinary growth in the value of exports of goods and services, amortization and interest payments represented a smaller proportion of exports of goods and services in 1977 than in the two previous years (see table 9).

/Table 8

Table 8  
PARAGUAY: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
<b>Current account</b>						
Exports of goods and services	106	149	207	210	211	315
Goods FOB	86	128	173	176	181	279
Services	20	21	34	34	30	36
Transport	1	1	2	2	2	2
Travel	11	11	12	10	14	18
Imports of goods and services	106	161	251	300	298	442
Goods FOB	79	127	198	227	230	348
Services	27	34	53	73	68	94
Transport	10	15	27	32	34	45
Travel	8	10	10	12	13	13
Net payments of profits and interest on foreign capital	-11	-10	-13	-13	-12	-16
Profits	-2	-2	-2	-1	-1	-2
Interest	-9	-8	-11	-12	-11	-4
Net private transfer payments	2	2	-	9	1	2
Balance on current account	-9	-20	-57	-94	-98	-141
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	9	20	57	94	98	141
(a) Net external non-compensatory capital	24	51	103	114	206	252
Direct investment	3	9	21	14	18	
Long- and medium-term loans	26	35	49	123	217	
Amortization payments	-11	-11	-21	-18	-26	
Short-term liabilities	2	14	51	-10	-7	
Official transfer payments	4	4	3	5	4	
(b) Domestic non-compensatory capital or assets	-4	-4	-14	-3	-54	
(c) Errors and omissions	-4	-6	-2	12	-14	
(d) Allocation of SDRs	2	-	-	-	-	
(e) Net compensatory financing						
(minus sign signifies an increase)	-9	-21	-30	-29	-40	-111
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	3	-	1	3	-
Amortization payments	-	-	-	-1	-	-
Variation in gross international reserves						
(minus sign signifies an increase)	-9	-24	-30	-29	-42	-111
Foreign exchange reserves						
(minus sign signifies an increase)	-7	-24	-30	-29	-41	
Gold reserves						
(minus sign signifies an increase)	-	-	-	-	-1	-
SDRs						
(minus sign signifies an increase)	-2	-	-	-	-	-

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund.

1977: CEPAL, on the basis of data supplied by the Central Bank of Paraguay.

/Table 9

Table 9

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
Total disbursed external debt	192.4	219.0	271.7	332.0	455.5	518.1
Servicing of external debt	20.0	22.4	28.5	35.6	37.6	50.3
Amortization payments	12.5	15.1	19.6	24.0	24.8	33.7
Interest payments	7.5	7.3	8.9	11.6	12.8	16.6
Servicing of external debt as a percentage of exports of goods and services	19.0	15.0	13.8	17.0	17.8	16.0

Source: Central Bank of Paraguay.

#### 4. Prices and monetary and fiscal development

##### (a) Prices

The pace of inflation accelerated in 1977. Annual changes in the consumer price index had slowed down sharply in 1975 and 1976 compared with 1973 and 1974, but the index rose 9.4% in 1977, more than double the rate of increase in 1976 (see table 10). The emergence of new upward pressures on prices was closely linked to the rise in unit values of imports and exports, and also to greater domestic demand resulting from an appreciable increase in private consumption.

##### (b) Monetary and fiscal expansion

Between December 1976 and December 1977 there was an increase of 32% in the means of payment, a faster growth rate than in 1975 and 1976.

As in previous years, the rise in net international reserves was again the main factor of expansion. These reserves increased by 66%, i.e., even higher than the high rates of 1975 and 1976. Domestic credit rose by 10%, reflecting the relatively high growth of credit to the private sector (22%) and more than taking up for the decline in credit to the government and to public institutions. Monetary absorption factors increased by 32%, which was somewhat more than in the previous year (see table 11).

In the field of government finance, savings on current account were more than double the 1976 level as a result of a marked rise of the order of 37% in current income, compared with a 15% increase in current expenditure. Meanwhile the growth rate of government investment, which had been undergoing strong, sustained increases since 1975, subsided to only 9% in 1977 (see table 12).

Table 10  
PARAGUAY: EVOLUTION OF DOMESTIC PRICES

(1964 = 100)

	1972	1973	1974	1975	1976	1977
<u>Variation from December to December</u>						
Consumer price index	...	14.1	22.0	8.7	3.4	9.4
Food	...	18.4	18.4	11.4	2.0	9.9
<u>Variation between annual averages</u>						
Consumer price index	9.2	12.8	25.2	6.7	4.5	9.4
Food	...	21.7	24.8	4.6	4.2	11.3

Source: Central Bank of Paraguay.

Table 11  
PARAGUAY: MONETARY POSITION

	End-year balance (millions of guaraníes)				Growth rates		
	1974	1975	1976	1977a/	1975	1976	1977a/
<u>Money</u>	<u>15 120</u>	<u>17 829</u>	<u>21 590</u>	<u>28 403</u>	<u>17.9</u>	<u>21.1</u>	<u>31.6</u>
<u>Factors of expansion</u>	<u>33 816</u>	<u>41 535</u>	<u>51 991</u>	<u>68 590</u>	<u>22.8</u>	<u>25.2</u>	<u>31.9</u>
Foreign assets (net)	10 058	13 986	20 494	33 933	39.1	46.5	65.6
Domestic credit	23 758	27 549	31 497	34 657	16.0	14.3	10.0
Government (net)	1 250	791	422	-1 995	-36.7	-46.6	...
Official entities	3 024	3 634	3 119	2 687	20.2	-14.2	-13.9
Private sector	19 484	23 124	27 956	33 965	18.7	20.9	21.5
<u>Factors of absorption</u>	<u>18 696</u>	<u>23 706</u>	<u>30 401</u>	<u>40 187</u>	<u>26.8</u>	<u>28.2</u>	<u>32.2</u>
Quasi-money							
(savings and time deposits)	14 260	19 258	24 159	31 576	35.0	25.4	30.7
Long-term foreign borrowing	463	252	189	551	-45.6	-25.0	191.5
Other items (net)	3 973	4 196	6 053	8 060	5.6	44.3	33.2

Source: International Monetary Fund, International Financial Statistics, May 1978.

a/ Preliminary figures.

Table 12  
PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of guaraníes				Growth rates		
	1974	1975	1976	1977	1975	1976	1977
1. <u>Current income</u>	<u>16 262</u>	<u>17 894</u>	<u>19 244</u>	<u>26 429</u>	<u>10.0</u>	<u>7.5</u>	<u>37.3</u>
Tax revenue	...	15 877	16 871	23 570	...	6.3	39.7
From taxes on external trade	...	...	6 517	7 024	...	...	7.8
From taxes on income and property	...	...	3 644	4 530	...	...	24.3
From taxes on production and transactions	...	...	6 710	12 016	...	...	79.1
Non-tax revenue	...	2 017	2 373	2 859	...	17.7	20.5
2. <u>Current expenditure</u>	<u>12 054</u>	<u>14 412</u>	<u>16 157</u>	<u>18 553</u>	<u>19.6</u>	<u>12.1</u>	<u>14.8</u>
Wages and salaries	...	6 126	7 325	8 529	...	19.6	16.4
Other current expenditure	...	8 286	8 832	10 024	...	6.6	13.5
3. <u>Saving on current account (1-2)</u>	<u>4 208</u>	<u>3 482</u>	<u>3 087</u>	<u>7 875</u>	<u>-17.3</u>	<u>-11.4</u>	<u>155.1</u>
4. <u>Capital expenditure</u>	<u>2 877</u>	<u>4 198</u>	<u>6 659</u>	<u>7 246</u>	<u>45.9</u>	<u>58.6</u>	<u>8.8</u>
Real investment	1 964	3 471	5 872	6 051	76.7	69.2	3.1
Other capital expenditure <u>a/</u>	913	727	787	1 195	-20.4	8.2	52.0
5. <u>Total expenditure (2+4)</u>	<u>14 931</u>	<u>18 610</u>	<u>22 816</u>	<u>25 799</u>	<u>24.6</u>	<u>22.6</u>	<u>13.1</u>
6. <u>Fiscal deficit (or surplus) (1-5)</u>	<u>1 331</u>	<u>-714</u>	<u>-3 570</u>	<u>629</u>	...	...	...
7. <u>Financing of deficit</u>	<u>-1 331</u>	<u>714</u>	<u>3 570</u>	<u>-629</u>	...	...	...
Domestic financing	-1 633	-649	208	-3 155	...	...	...
Central bank	...	91	-84	340	...	...	...
Issue of securities		-217	-189	-190	...	...	...
Other		-774	-66	-3 005	...	...	...
External financing	302	1 363	3 362	2 526	...	...	...

Source: Office of the President of the Republic, Technical Planning Secretariat.

a/ Excluding amortization of the public debt.

/PERU

## PERU

### 1. The overall picture

The gross domestic product fell by 1% and the per capita product by 3.7% in 1977. Thus, the depressive trend that started in 1975 was intensified and as a result the per capita produce was almost equal to that recorded in 1973. At the same time, the rate of inflation slowed down and the balance-of-payments deficit on current account diminished (see table 1).

The drop in the domestic product was mainly due to a contraction of manufacturing and significant decreases in construction activity and fishing. Only the mining sector considerably increased its output, while agriculture remained at a standstill. In line with these production trends, the rate of unemployment rose from 5.2% in 1976 to 5.8% in 1977.

The main recessive element was the decline of over 3% in domestic demand, which had already fallen by 1% in 1976, as a result of the nature of the conjunctural economic policy adopted to counteract the disequilibria in both the external and the public sector. Thus, gross fixed investment dropped by 28%, while private consumption fell less than 1%. Thanks to the vigorous growth of exports of goods and services (20%) the decline in total demand was reduced to 1%.

The external sector showed some improvement, with the deficit on current account in the balance of payments dropping from 1,230 million dollars in 1976 to 960 million in 1977 as a result of the recovery of exports, particularly of mining products, and the stagnation of imports. The position of net international reserves deteriorated, however, although more moderately than in 1975 and 1976, because the net inflow of long- and medium-term capital was not enough to cover the current account deficit.

The rate of inflation dropped from 45% in 1976 to 32% in 1977, in particular owing to the combined effect of a reduction in real liquidity and a contraction of domestic demand. The fiscal position, on the other hand, continued to worsen, since the relationship between the Government's total fiscal deficit and its total expenditure rose from 37% in 1976 to 42% in 1977. The real minimum salary, for its part, fell by 9%, added to the decreases already recorded in 1975 and 1976.



Table 1  
PERU: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	8 408	8 984	9 281	9 559	9 463
Population (millions)	14.7	15.1	15.5	15.9	16.4
Per capita gross domestic product (US dollars at 1970 prices)	573	596	599	601	578
<u>Growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	6.2	6.9	3.3	3.0	-1.0
Per capita gross domestic product	3.3	4.0	0.5	0.2	-3.7
Gross income <sup>b/</sup>	9.6	8.8	1.5	2.5	-1.2
Terms of trade	24.8	18.3	-15.1	-3.5	2.3
Current value of exports of goods and services	16.6	36.9	-8.3	3.4	25.3
Current value of imports of goods and services	34.5	64.5	24.4	-13.5	4.5
Consumer price index					
December to December	13.8	19.2	24.0	44.7	32.4
Annual average variation	9.5	16.9	23.6	33.5	38.1
Money	27.4	41.6	17.3	25.3	20.9
Wages and salaries <sup>c/</sup>	-12.1	4.6	-4.9	-12.2	-9.4
Rate of unemployment <sup>d/</sup>	4.2	4.0	4.9	5.2	5.8
Current income of government	16.9	28.5	28.2	26.7	38.3
Total expenditure of government	27.1	18.6	33.1	33.9	51.8
Fiscal deficit/total expenditure of government <sup>d/</sup>	35.9	30.5	33.1	36.7	42.3
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-139	-601	-1 349	-881	-557
Balance on current account	-299	-752	-1 574	-1 233	-964
Variation in net international reserves	13	282	-577	-868	-297
External debt <sup>e/</sup>	1 814	2 563	3 474	4 074	4 700

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus term-of-trade effect.

<sup>c/</sup> Annual variation in real minimum salary.

<sup>d/</sup> Percentage.

<sup>e/</sup> Total disbursed, public and private.

## 2. Recent economic trends

### (a) Total supply and demand

The recessive trend affecting economic activity since 1975 was accentuated in 1977. The gross domestic product fell by 1% following two consecutive years in which it had kept pace with population growth (see table 2).

The drop of around 2% in the volume of imports followed the previous year's decline of 16%. Thus the situation in 1976-1977 was very different from that prevailing in 1973-1975, a period in which the high rates increase in imports determined a significantly higher growth rate of total supply than of the domestic product.

An analysis of total demand shows a decrease of 23% in gross fixed investment, following a 7% drop in 1976 which brought to an end a period of rapid growth of capital formation. The deterioration in 1977 was due to a reduction in both public (27%) and private investment (19%).

The slow growth of total consumption and the contraction in per capita consumption were other indicators of the recession in economic activity in general and domestic demand in particular. A notable factor was the stagnation of private consumption, which meant an appreciable fall in per capita consumption for the second year running. Meanwhile, Government consumption rose by 13%.

The growth of nearly 20% in the volume of exports was the only important dynamic factor of economic activity and was closely related with the performance of the mining sector, which is examined later in this section. The increase was added to that recorded in the previous year, after seven years of persistent decline, i.e., a 24% reduction between 1968 and 1975. It is interesting to note that during this same period the volume of imports rose by 88%, which led to a marked disequilibrium in the external sector and other problems deriving from periodical export and import price fluctuations.

### (b) Sectoral trends

The contraction in the economy in 1977 was the result of certain defects in its production structure and the intensification of some restrictive trends that had existed since 1975, all of which was reflected in the evolution of sectoral activity.

Table 2  
PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<b>Total supply</b>	<b>382 412</b>	<b>380 904</b>	<b>376 647</b>	<b>115.7</b>	<b>117.6</b>	<b>4.7</b>	<b>-0.4</b>	<b>-1.1</b>
Gross domestic product at market prices	314 029	323 559	320 323	100.0	100.0	3.3	3.0	-1.0
Imports of goods and services <sup>b/</sup>	68 383	57 345	56 324	15.7	17.6	11.4	-16.1	-1.8
<b>Total demand</b>	<b>382 412</b>	<b>380 904</b>	<b>376 647</b>	<b>115.7</b>	<b>117.6</b>	<b>4.7</b>	<b>-0.4</b>	<b>-1.1</b>
Domestic demand	346 340	343 061	331 347	96.0	103.5	6.1	-0.9	-3.4
Gross domestic investment	65 254	57 942	41 892	13.0	13.1	10.0	-11.2	-27.7
Gross fixed investment	58 254	53 942	41 481	12.4	12.9	20.2	-7.4	-23.1
Public	28 355	26 740	19 475	2.6	6.1	11.9	-5.7	-27.2
Private	29 899	27 202	22 006	9.8	6.9	29.3	-9.0	-19.1
Changes in stocks	7 000	4 000	411	0.6	0.2			
Total consumption	281 086	285 119	289 455	83.0	90.4	5.2	1.4	1.5
General government	41 423	42 837	48 578	10.1	15.2	13.5	3.4	13.4
Private	239 663	242 282	240 877	72.9	75.2	3.9	1.0	-0.6
Exports of goods and services <sup>b/</sup>	36 072	37 843	45 300	19.7	14.1	-6.9	4.9	19.7

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú and the National Institute of Statistics (INE);

1977: CEPAL estimates on the basis of data supplied by the National Institute of Statistics.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

The drops in the products of manufacturing (4%) and construction activity (14%) were largely due to an economic policy in force whose aim was to restrict domestic demand as a means of correcting the existing financial disequilibria. In contrast, the stagnation of the agricultural sector was, in the main, the result of the structural limitation of the Peruvian economy, which was the cause of a steady decline in the per capita agricultural product. The decrease in fishing (6%) was due to the scarcity of anchoveta, a natural resource whose behaviour in recent years has led to this sector's fluctuating performance, which shows no signs of recovering from the collapse experienced in the period 1969-1973. The mining sector prevented a greater fall in total production of goods, attaining a growth rate of over 25% which was mainly the result of fuller exploitation of the new Cuajone copper mine (see table 3).

(i) Agriculture. Agricultural production in 1977 was practically the same as in the previous year owing to the decrease in crop farming (0.5%) and the small increase in livestock production (1.0%) (see table 4). The sector has maintained its age-old slow-growth trend, and in the last two decades its production increased at an average annual rate of approximately 2%.

In 1977 the lack of rainfall and the frosts in the central and southern sierra of Peru affected the production of some crops, particularly potatoes, yuca and wheat. Moreover, problems continued to arise in connexion with scarce technical and credit assistance and the limited availability of agricultural machinery, improved seeds and other inputs. An illustrative example of this was coffee-growing, in which the scarcity of pesticides was responsible for the failure to control the disease caused by the coffee berry beetle (broca), with the consequent stagnation of production.

Cotton followed a different trend; the sowing period was advanced, especially on the north coast, in order to take advantage of the availability of water and obtain a second crop. Thus, production grew by about 7%, in spite of the premature appearance of pests and diseases which prevented higher yields. There were also significant increases in the production of rice, maize and sorghum, but at lower rates than in 1975 and 1976.

Table 3

PERU: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of soles at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	42 386	44 227	44 013	18.8	15.2	1.8	4.3	-0.5
Crop farming and stock-raising	38 967	40 127	40 167	15.9	13.9	0.9	3.0	0.1
Fishing	3 419	4 100	3 846	2.9	1.3	-15.2	19.9	-6.2
Mining	17 712	19 289	24 188	8.6	8.4	-10.9	8.9	25.4
Manufacturing	63 457	66 122	63 477	20.6	22.0	4.7	4.2	-4.0
Construction	18 233	17 722	15 241	4.5	5.3	16.8	-2.8	-14.0
<u>Subtotal goods</u>	<u>141 788</u>	<u>147 360</u>	<u>146 919</u>	<u>52.5</u>	<u>50.9</u>	<u>2.9</u>	<u>3.9</u>	<u>-0.3</u>
Electricity, gas and water	3 440	3 478	...	1.2	...	2.9	1.1	...
Transport storage and communications	14 321	14 608	...	4.5	...	4.3	2.0	...
<u>Subtotal basic services</u>	<u>17 761</u>	<u>18 086</u>	<u>...</u>	<u>5.7</u>	<u>...</u>	<u>4.0</u>	<u>1.8</u>	<u>...</u>
Commerce, financial institutions and insurance	48 466	49 241	...	16.1	...	3.6	1.6	...
Real estate <sup>b/</sup>	12 300	12 669	...	4.5	...	3.0	3.0	...
Community, social and personal services <sup>c/</sup>	63 007	64 267	...	21.3	...	4.4	2.0	...
<u>Subtotal other services</u>	<u>123 774</u>	<u>126 178</u>	<u>...</u>	<u>41.8</u>	<u>...</u>	<u>3.9</u>	<u>1.9</u>	<u>...</u>
<u>Subtotal services</u>	<u>141 535</u>	<u>144 264</u>	<u>141 956</u>	<u>47.5</u>	<u>49.1</u>	<u>3.9</u>	<u>1.9</u>	<u>-1.6</u>
<u>Total gross domestic product <sup>d/</sup></u>	<u>285 100</u>	<u>293 653</u>	<u>290 716</u>	<u>100.0</u>	<u>100.0</u>	<u>3.3</u>	<u>3.0</u>	<u>-1.0</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú and the National Institute of Statistics (INE);

1977: CEPAL estimates on the basis of data supplied by the National Planning Institute (IPN).

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Refers to ownership of dwellings only.

<sup>c/</sup> Also includes restaurants, hotels and business services.

<sup>d/</sup> As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4  
PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
Index of agricultural production (1973 = 100)	102.3	103.3	106.7	106.8	1.0	3.3	0.1
Crop farming	100.2	97.6	100.2	97.7	-2.6	2.7	-0.5
Stock-raising	106.8	115.9	121.0	122.2	8.5	4.4	1.0
Production of some important crops (thousands of metric tons)							
Rice	494	537	570	587	8.7	6.1	3.0
Cotton	256	226	165	176	-11.7	-27.0	6.7
Coffee	70	65	65	65	-7.1	0.0	0.0
Sugar cane	9 184	8 958	8 792	8 816	-2.5	-1.9	0.3
Potatoes	1 722	1 640	1 667	1 580	-4.8	1.6	-5.2
Maize	606	635	726	749	4.8	14.3	3.2
Yuca	469	400	403	395	-14.7	0.8	-2.0
Wheat	127	126	128	120	-0.8	1.6	-6.3
Sorghum	22	29	46	51	31.8	58.6	10.9
Production of some important livestock products (thousands of metric tons)							
Poultry meat	106	130	140	143	22.6	7.7	2.1
Beef	85	86	87	87	1.2	1.2	0.0
Milk	813	813	821	828	0.0	1.0	0.9
Pork	...	...	55	54	...	...	-1.8

Source: National Institute of Statistics (INE).

<sup>a/</sup> Preliminary figures.

/The slow

The slow growth of livestock activity was influenced by the stagnation of beef and pork production and the low rate of growth of the production of fresh milk and poultry meat. This trend was largely due to the decrease in private consumption.

(ii) Fishing. On the whole, the evolution of the fisheries sector was unfavourable in 1977, basically because the lack of anchoveta greatly affected the catch intended for the manufacture of fish meal and oil. This situation could have been even more critical if there had not been an abundance of other species such as jurel and sardines, which are traditionally used for direct human consumption but large quantities of which have also been used for the production of fish meal and oil (see table 5).

As regards fishing for direct human consumption, 448,000 tons were caught in 1977, which surpassed predictions for that year by over 20% and represented a growth of more than 34% over 1976. This performance was in keeping with oceanographic phenomena connected with the Corriente del Niño (from the north), which favoured the increased supply of some species such as sardine, jurel, hake and a type of sierra (caballa). In this sub-sector, fishing for the manufacture of canned food showed the fastest growth (46%), followed by that for frozen (34%) and fresh consumption (28%). Nevertheless, the fishing industry was faced with some difficulties in terms of the poor quality of the raw material, attributable to fishing with inadequate vessels and gear, inefficient handling and deficiencies in the freezing and discharge infrastructure.

Fishing for direct human consumption amounted to a little over 2 million tons, representing a 50% drop compared with the previous year. Anchoveta fishing has been limited to the southern coast by virtue of the measures aimed at protecting the species. There is some concern, however, that the available biomass will not recover owing to a combination of oceanographic factors and over-fishing during the years of most activity in the fish meal and fish oil industry. Thanks to the utilization of other species (sardine, jurel and samaza) the production of fish oil did not decline, but the same cannot be said of the production of fish meal in view of the larger fat content of the species used as raw material.

Table 5  
PERU: INDICATORS OF FISHERY PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
Index of fishery output <sup>b/</sup> (1973 = 100)	135.9	115.2	138.1	129.5	-15.2	19.9	-6.2
Total output of fishery products (thousands of metric tons)	4 120	3 409	4 338	2 469	-17.3	27.2	-43.1
For direct human consumption <sup>b/</sup>	319	292	334	448	-8.3	14.2	34.3
For indirect human consumption <sup>c/</sup>	3 801	3 117	4 004	2 021	-18.0	28.5	-49.5

Source: National Institute of Statistics (INE).

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Comprises fresh fish and processed fish (canned, frozen, salted and in the form of fish preparations) consumed in the country or exported.

<sup>c/</sup> Anchoveta and other species, mainly for the production of fish meal.

/(iii) Mining.



(iii) Mining. For the second year in succession mining (including petroleum) showed a favourable performance, growing by more than 28% after the 1976 increase of about 7% (see table 6). This brought to an end a 15-year period of sluggish growth in mining production, the average rate of expansion being around 2%.

The factor determining the evolution of mining was the increase in copper production in the Cuacone copper mine of the Southern Peru Copper Company. This mine began to be developed in 1976 when production reached almost 45,000 metric tons of fine content, rising in 1977 to 160,000 tons. Another factor worth noting is the start of production activities in Cerro Verde I - oxides owned by the State-owned enterprise MINERO-PERU.

In spite of the notable recovery of iron production, it proved impossible to attain the 1974 levels and it was even less possible to make full use of the relevant installed capacity which is estimated at 10 million tons. This shows that some problems still persist in marketing the large stocks of the Marcona mine, an enterprise which was nationalized in mid-1975.

Production of silver, lead and zinc maintained the previous year's rising trend.

Small- and medium-scale mining faced serious economic and financial problems, mainly because of the fall in world prices of copper and, to a certain extent, zinc in 1977. In view of this situation, the Government exempted medium-scale copper mining from the tax on traditional exports established in the middle of 1976 with the object of obtaining for the State a portion of the larger profits generated by devaluation.

Production of crude petroleum reached a volume of 33 million barrels, or 19% more than in 1976. This growth was mainly due to the large volume produced by the State enterprise PETRO-PERU (nearly 19 million barrels in 1977 compared with 13.5 million in 1976) and also, on a lesser scale, by the contracting company Occidental Petroleum. On the other hand, the contracting company BELCO's production fell by 10% in volume because of its unsuccessful efforts to develop wells drilled in deeper waters on the continental shelf.

Table 6  
PERU: INDICATORS OF MINING PRODUCTION

	1974	1975	1976 <sup>a/</sup>	1977 <sup>b/</sup>	Growth rates		
					1975	1976 <sup>a/</sup>	1977 <sup>b/</sup>
Index of mining production <sup>c/</sup> (1973 = 100)	103.8	93.8	100.0	128.4	-9.6	6.6	28.4
Production of some important minerals <sup>d/</sup> (thousands of metric tons)							
Copper	212	166	201	300	-21.6	21.4	49.3
Lead	166	154	160	167	-7.0	3.6	4.3
Zinc	378	365	421	447	-3.5	15.5	6.0
Iron	6 219	5 067	3 089	4 021	-18.5	-39.0	30.2
Silver (thousands of kg)	1 085	1 058	1 107	1 187	-2.5	4.6	7.2
Gold (thousands of grams)	3 123	3 135	2 511	...	0.4	-19.9	...
Crude petroleum (millions of barrels)	28.1	26.3	28.0	33.3	-6.6	6.4	19.9

Source: National Institute of Statistics (INE).

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Estimates.

<sup>c/</sup> Index of physical volume, including petroleum.

<sup>d/</sup> Units of recoverable content.

A certain delay in the entry into operation of the North Peruvian oil pipeline, some inland water transport problems due to variations in the flow of the Tigre river in the northern jungle and a lower production than expected on the continental shelf prevented the attainment of the proposed Development Plan target for 1977, i.e., 44 million barrels.

(iv) Manufacturing. Manufacturing output declined by about 5%; in the last four months the depressive trend was accentuated, since in the period January-August the decrease was 2% with respect to the same period in 1976. This trend, which began at the end of 1976, contrasted with the sector's performance in the years 1960-1974, during which it grew at an average annual rate of about 7%; the rate rose to nearly 8% between 1970 and 1974 (see table 7).

The causes of this evolution were closely linked with the restrictions imposed on domestic demand in line with the objectives of the economic policy in force. Added to this were certain difficulties in the supply of raw materials, particularly those imported.

The industries producing consumer goods 1/ were the most seriously affected by the contraction, their output declining by 7%, in particular those manufacturing textiles (10%), clothing (approximately 15%) and footwear (35%), which altogether represent more than one-third of this group. A 4% decline was also recorded in the production of food, beverages and tobacco (excluding fish meal and oil), which account for over half the group of consumer industries.

The group of industries producing intermediate goods, 2/ excluding fish meal, grew by 8%. The performance of this group, which represents 37% of the manufacturing stratum, is primarily accounted for by the sharp increase (42%) in the basic metals industries, particularly non-ferrous metals. Paper production also increased, while the output of other intermediate goods declined.

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1/ Including food, beverages and tobacco, except fish meal; textiles; clothing and footwear; furniture, printing and publishing; and miscellaneous industries (see table 7).

2/ Including leather and leather substitutes; wood, except furniture; paper; chemicals; non-metallic minerals; and basic metals.

Table 7  
PERU: INDEX OF MANUFACTURING PRODUCTION  
(1973 = 100)

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates			
					1974	1975	1976	1977 <sup>a/</sup>
<b>Index of manufacturing production b/</b>								
Manufacturing sector c/	108.7	113.8	118.9	113.3	8.7	4.7	4.5	-4.7
Manufacturing sector d/	107.4	112.9	117.9	113.1	7.4	5.2	4.3	-4.0
Consumer goods	106.4	109.5	111.9	103.8	6.4	2.8	2.3	-7.2
Intermediate goods c/	112.5	115.3	127.3	135.1	12.5	2.5	10.4	6.1
Intermediate goods d/	109.1	113.1	124.7	135.2	9.1	3.6	10.3	8.4
Capital goods	111.2	128.2	126.0	118.9	11.2	15.3	-1.7	-5.6
<b>Manufactured of fish meal</b>	<b>242.0</b>	<b>200.6</b>	<b>225.1</b>	<b>131.2</b>	<b>142.0</b>	<b>-17.1</b>	<b>12.2</b>	<b>-41.7</b>
<b>Food, beverages and tobacco</b>	<b>110.6</b>	<b>114.3</b>	<b>116.8</b>	<b>112.3</b>	<b>10.6</b>	<b>3.4</b>	<b>2.2</b>	<b>-3.9</b>
Food	108.4	110.5	110.4	109.2	8.4	1.9	-0.1	-1.1
Beverages	116.0	125.9	137.9	130.2	16.0	8.6	9.5	-5.6
Tobacco	116.5	117.0	116.1	...	16.5	0.4	-0.8	...
<b>Textile, clothing and leather industries</b>	<b>109.1</b>	<b>109.8</b>	<b>115.3</b>	<b>97.6</b>	<b>9.1</b>	<b>-0.7</b>	<b>5.0</b>	<b>-15.4</b>
Textiles	110.2	110.5	118.9	106.8	10.2	0.3	7.5	-10.1
Clothing	111.7	110.8	92.0	...	11.7	-0.8	-17.0	...
Leather and substitutes, except footwear	101.2	110.2	106.2	...	1.2	8.9	-3.6	...
Footwear	100.4	101.4	127.0	82.5	0.4	1.0	25.2	-35.0
<b>Wood and furniture industries</b>	<b>103.1</b>	<b>120.1</b>	<b>140.9</b>	<b>...</b>	<b>3.1</b>	<b>16.5</b>	<b>17.3</b>	<b>...</b>
Wood, except furniture	101.9	113.0	161.5	...	1.9	10.9	42.9	...
Furniture	104.7	129.7	112.6	...	4.7	23.9	-13.2	...
<b>Paper, printing and publishing industries</b>	<b>105.6</b>	<b>101.3</b>	<b>103.2</b>	<b>105.2</b>	<b>5.6</b>	<b>-4.1</b>	<b>1.8</b>	<b>2.0</b>
Paper	113.3	120.0	123.1	131.4	13.3	5.9	2.6	6.7
Printing, publishing and related industries	97.1	80.5	80.9	76.9	-2.9	-17.1	0.4	-4.9
<b>Manufactured of chemical substances and chemical products</b>	<b>111.4</b>	<b>122.1</b>	<b>138.6</b>	<b>132.1</b>	<b>11.4</b>	<b>9.6</b>	<b>13.5</b>	<b>-4.7</b>
Industrial chemical substances	122.7	127.8	130.0	131.3	22.7	4.1	1.7	1.0
Chemical products	109.1	127.0	163.7	144.2	9.1	16.4	28.9	-11.9
Petroleum refineries	108.4	114.9	112.9	116.6	8.4	6.0	-1.7	3.3
Miscellaneous products	112.9	58.7	57.7	...	12.9	-48.0	-1.7	...
Rubber products	102.2	112.4	158.5	149.1	2.2	10.0	41.0	-5.9
Plastic products	113.5	123.3	124.4	...	13.5	8.6	0.9	...
<b>Non-metallic mineral industries</b>	<b>108.3</b>	<b>112.8</b>	<b>123.3</b>	<b>118.3</b>	<b>8.3</b>	<b>4.1</b>	<b>9.3</b>	<b>-4.0</b>
Clay, china and porcelain objects	110.8	116.7	136.0	...	10.8	5.3	16.5	...
Glass and glass products	105.0	121.8	134.0	93.7	5.0	16.0	10.0	-30.1
Other non-metallic mineral products	108.9	109.8	118.6	118.9	8.9	0.8	8.0	0.3
<b>Basic metal industries</b>	<b>106.7</b>	<b>99.6</b>	<b>104.1</b>	<b>147.3</b>	<b>6.7</b>	<b>-6.7</b>	<b>4.5</b>	<b>41.5</b>
Iron and steel	139.5	127.5	116.5	130.8	39.5	-8.6	-8.6	12.3
Non-ferrous metals	98.7	92.8	101.0	161.1	-1.3	-6.0	8.9	59.4
<b>Metal, machinery and equipment industries</b>	<b>111.2</b>	<b>128.2</b>	<b>126.0</b>	<b>118.9</b>	<b>11.2</b>	<b>15.3</b>	<b>-1.7</b>	<b>-5.6</b>
Simple metal products	108.2	116.2	106.6	105.2	8.2	7.4	-8.3	-1.3
Machinery, except electrical	115.9	144.1	154.1	173.7	15.9	24.3	6.9	12.7
Electrical machinery	121.9	145.1	156.3	151.6	21.9	19.0	7.7	-3.0
Transport equipment	105.1	119.1	108.5	78.8	5.1	13.3	-8.9	-27.4
Measuring equipment, instruments, etc.	108.7	142.6	152.4	...	8.7	31.2	6.9	...
<b>Other manufacturing industries</b>	<b>102.7</b>	<b>114.4</b>	<b>104.5</b>	<b>...</b>	<b>2.7</b>	<b>11.3</b>	<b>-8.6</b>	<b>...</b>

Source: National Institute of Statistics (INE).

a/ Preliminary figures.

b/ Index of physical volume.

c/ Including fish meal.

d/ Excluding fish meal.

/The industries

The industries producing capital goods,<sup>3/</sup> which are considered to include consumer durables,<sup>4/</sup> recorded a decrease of about 6%. There was a particularly significant drop in the manufacture of transport equipment (27%), which represents nearly 40% of this group of industries.

The evolution of the production of fish meal and oil was closely linked with the trend followed by fishing for indirect human consumption. The combined output of fish meal and oil fell by 42%, the main factor being the drop in the production of fish meal (44%), while the production of fish oil increased slightly (1%).

(v) Construction activity. This sector's contribution to the gross domestic product is estimated to have fallen by 14%, following a 3% drop in 1976 (see table 3). These declines differ from the performance observed in the period 1969-1973 when the sector attained an average rate of expansion of 10% annually, while in the years 1974-1975 the rate rose to 19%. In official reports, the following comments have been made on the significance of the fluctuations occurring in construction: "It is observed that the slowing-down of construction activity precedes a general recession in the country's economic activity by approximately a year, and that negative growth rates for construction coincide with low rates of economic growth in general..."<sup>5/</sup>

Production and consumption of some building materials reflected the impact of the sector's contraction. Steel production for construction fell 8%, but the decrease in its consumption is estimated at 11%; cement output remained at almost the same level, although about 60,000 tons were exported during 1977; the manufacture of flat glass dropped by 13% (see table 8).

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<sup>3/</sup> Including the metal industries, machinery and equipment.

<sup>4/</sup> See, in this respect, National Planning Institute, Patrón de crecimiento de la economía peruana, Informe N° 041-76/INP-OIP, Lima, July 1976. It is stated in this document that the share of capital goods in this group is only 25% and that of consumer durables is about 60%.

<sup>5/</sup> See, Patrón de crecimiento de la economía peruana, op. cit., p. 39.

Table 8  
PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
Production of certain building materials (thousands of metric tons)							
Structural steel	148.0	131.0	134.0	123.4	-11.5	2.3	-7.9
Cement	1 914.0	1 939.8	1 966.2	1 962.0	1.3	1.4	-0.2
Flat glass <sup>b/</sup>	...	7.5	13.2	11.5	...	76.0	-12.9

Source: Ministry of Housing and Construction; National Planning Institute (INP).

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Empresa Vidrios Planos del Perú S.A.

/The contraction

The contraction in the construction activity was mainly due to the restricted domestic demand in 1976 and 1977. The situation was also affected by other negative factors of a more specific nature, however. Noteworthy among them was the drop in public investment after several years of sustained expansion and, specifically, the conclusion of the work on the Cuacone project and the oil pipeline. The higher cost of building materials in the last two years was another factor that helped to discourage this activity (see table 18).

(c) Employment and unemployment trends

In 1977 the total rate of open unemployment rose to 5.8% of the economically active population, thus accentuating the unfavourable evolution of this indicator which started in 1975; the under-employment coefficient is estimated to have risen to 48%. These two indicators represent the lowest levels of manpower absorption thus far attained in the present decade (see table 9). The deterioration has been most acute in the non-agricultural sectors where rates of open unemployment and under-employment of 9.4% and 39% respectively were observed. These figures are in distinct contrast with those recorded in 1973 and 1974.

The levels of agricultural unemployment were very low and similar to those attained in the previous year; under-employment persisted at an estimated rate of 62%. The evolution of these indicators is not very sensitive to the conjunctural fluctuations of economic activity and mainly responds to more deep-seated and lasting characteristics, i.e., the process of rural-urban migration among others. Thus, while the active population in the non-agricultural sector has been growing at an annual rate of 4.2%, that employed in the agricultural sector has been increasing by approximately 1.5% annually.

A study of the course of employment by sectors in Lima shows that the number of workers employed in manufacturing decreased, a trend which was accentuated in the second half of 1977. This situation coincided with a significant increase in the number of applications by manufacturing enterprises to close down or stop work and reduce their staff (from 82 to 222 between January-September 1976 and the same period of 1977).

Table 9  
PERU: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	Percentage of economically active population							
	1970	1971	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>I. The whole country</b>								
Unemployment	4.7	4.4	4.2	4.2	4.0	4.9	5.2	5.8
Agricultural	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-agricultural <sup>b/</sup>	8.3	7.3	7.3	7.1	6.7	8.1	8.4	9.4
Under-employment	46.0	44.4	44.2	41.3	41.9	42.4	44.3	48.0
Agricultural	64.3	63.6	67.0	65.4	65.4	68.2	61.8	61.7
Non-agricultural <sup>b/</sup>	30.9	29.0	26.5	23.3	25.0	24.8	32.7	39.2
Adequately employed	49.3	51.2	51.6	54.5	54.1	52.7	50.5	46.2
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
	Employment index <sup>c/</sup>				Growth rates			
	1974	1975	1976	1977	1970-1974	1975	1976	1977 <sup>a/</sup>
<b>II. Lima metropolitan area</b>								
Manufacturing	126.4	135.5	139.9	138.0	6.0	7.2	3.2	-1.4
Commerce	124.7	128.1	132.9	133.2	5.7	2.7	3.7	0.2
Services	117.7	121.0	122.5	125.0	4.2	2.8	1.2	2.0

Sources: I. Ministry of Labour, Employment Department.

II. National Institute of Statistics, Informe estadístico, January-December 1977.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Includes mining.

<sup>c/</sup> To December; base year: 1970 = 100.

/Concurrently, the



Concurrently, the employment index rose in the commerce and services sectors. This fact indicated that activities such as those of travelling salesmen and unorganized services absorbed, mainly on the basis of under-employment, part of the difference existing between the creation of new jobs and the growth of the active population.

### 3. The external sector

#### (a) Main trends

The most critical element of the present disequilibria of the Peruvian economy is the serious external sector bottleneck which started in the early 1970s and has been manifested, among other aspects, in increasing deficits on the current account of the balance of payments and in a considerable decrease in net international reserves since the beginning of 1975 (see tables 15 and 16).

A salient feature in this respect was the deterioration in foreign trade in goods, which recorded a sharply declining trend with the initial surpluses converted into deficits from 1974 onwards. It should be noted that this trend was influenced by the expansive economic policy adopted since the early 1970s, which was unaccompanied by any measures to prevent real and financial maladjustments or parallel steps to promote the export sector and, moreover, brought out the limitations and lack of integration of the domestic production apparatus, which was heavily dependent on imported supplies. Added to this was the adverse impact of world inflation and, subsequently, of the recession in the industrialized countries.

The large net inflow of non-compensatory capital and the improvement in the terms of trade in 1973 and 1974 postponed until 1975 the open manifestation of the disequilibria that were being generated, when the accentuation of internal maladjustments coincided with the world recession and with the growing burden of service payments on the foreign capital entering the country in preceding years. This situation reached its most critical point in 1975 and 1976, when the current account deficit was 1,570 and 1,230 million dollars, respectively, while net international reserves dropped by 1,450 million dollars, recording a negative balance of 750 million dollars in December 1976.

/These developments

These developments led to the formulation of a stabilization programme in June 1976, by virtue of which the exchange rate was altered from 45 to 65 soles to the dollar and a restrictive fiscal and monetary policy was established which meant an increase in some taxes and a reduction in public expenditure, particularly investment, while the expansion of credit to both the public and the private sector was restricted.

The implementation of the stabilization programme coincided with an increase in exports as a result of the start of production activity in the new copper mines and the rise in world prices of lead, zinc, coffee and cotton, and with a certain decline in imports. Thus the trade deficit in goods decreased from 1,100 million dollars in 1975 to 740 million in 1976. This recovery was, however, insufficient, and at the same time the inflow of non-compensatory capital was relatively restricted so that net international reserves continued to decline in 1976.

Concurrently, the rise in prices set off in the ensuing months by the stabilization programme itself caused a rapid deterioration in the exchange rate in real terms, and this, together with other considerations, led to the establishment in September 1976 of a policy of mini-devaluations which remained in force until July 1977.

(b) The situation in 1977: some salient features

In the first nine months of the year there was an additional drop of 360 million dollars in net reserves. The authorities then adopted emergency measures such as the use of very short-term compensatory loans (swaps), a reduction in the programmed assignments of foreign exchange for imports and the extension to 180 days of the period for the compulsory financing of practically all imports.<sup>6/</sup>

The nominal rate of exchange rose periodically between September 1976 and July 1977 and remained steady between the latter date and September, so that the index of the real exchange rate (base June 1976 = 100) dropped to 70 in September 1977 (see table 10).

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<sup>6/</sup> Formerly, this period was 90 and 120 days, depending on the type of imports, and the measure excluded imports of food and pharmaceutical products.

Table 10  
PERU: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate a/ (soles per dollar) (1)	Index of exchange rate b/ (2)	Wholesale price index b/ (3)	Index of real exchange rate b/ (4) = (2) / (3)
<u>1975</u>				
December	45.00	69.2	81.2	85.2
<u>1976</u>				
January	45.00	69.2	94.2	73.5
February	45.00	69.2	95.5	72.5
March	45.00	69.2	97.5	70.9
April	45.00	69.2	97.5	70.9
May	45.00	69.2	98.6	70.2
June	65.00	100.0	100.0	100.0
July	65.00	100.0	116.6	85.8
August	65.00	100.0	125.2	79.9
September	65.56	100.9	127.2	79.3
October	66.52	102.3	130.7	78.3
November	67.73	104.2	132.8	78.5
December	69.37	106.7	133.7	79.8
<u>1977</u>				
January	71.05	109.3	140.0	78.1
February	72.64	111.8	144.6	77.3
March	74.24	114.2	149.8	76.2
April	76.00	116.9	151.1	77.4
May	78.04	120.1	153.4	78.3
June	79.89	122.9	162.3	75.7
July	80.88	124.4	168.1	74.0
August	80.88	124.4	173.2	71.8
Septiembre	80.88	124.4	177.5	70.1
October	102.08	157.0	180.3	87.1
November	116.88	179.8	184.8	97.3
December	130.38	200.6	191.5	104.8

Sources: National Institute of Statistics (INE) and Banco Central de Reserva del Perú.

a/ At end of period; from October 1977 onwards the purchase and sales average is considered.

b/ Base: June 1976 = 100. An "equilibrium" rate was established that month, according to the radio and television address delivered by the Ministry of Economic Affairs and Finance on 30 June 1976.

/These developments

These developments were important factors on the basis of which, in October 1977, a new stabilization programme was adopted which modified the previous foreign exchange system,<sup>7/</sup> established the "single exchange market" and stipulated that the exchange rate would be determined by the free play of supply and demand. At the same time, the quantitative controls on imports and the use of foreign exchange were lifted and the system of import programming was eliminated. In accordance with the new exchange system, the Central Bank would retain a variable percentage of export receipts - 35% in December 1977 - for service payments on balance-of-payments loans and the public external debt, while the rest of the banking system would take care of the demand for foreign exchange from the various economic agents.

Since the entry into operation of the unified market and the liberalization of exchange and trade policy, the rate of exchange started to float daily and by the end of 1977 had reached 130.4 soles to the dollar. With this devaluation of over 60% in a period of three months, the index of the real rate of exchange rose rapidly and in December 1977 it stood at a slightly higher value (5%) than in June 1976.

In 1977 the performance of the balance of payments resulted in an overall loss of international reserves of approximately 300 million dollars, which represented a relative recovery compared with the above-mentioned results in 1975 and 1976.

(c) Trade in goods

The reduction in the deficit in foreign trade in goods from 740 million dollars in 1976 to 440 million in 1977 was possible owing to a significant increase in the volume exported (16%), which in terms of value rose to 27% because of the increase recorded in the unit value of Peru's external sales (9%) (see table 11). Imports grew only 3% despite the 3% contraction in volume, given the 6% increase in the unit value of imports.

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<sup>7/</sup> Under that system there were two differentiated markets (for certificates and drawings) in which the Banco Central de Reserva and the Banco de la Nación were compelled to sell all the foreign currency required by the various economic agents at an exchange rate directly established by the monetary authority.

Table 11  
PERÚ: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976 <sub>a/</sub>	1977 <sub>a/</sub>
<u>Growth rates</u>					
Exports of goods					
Value	17.9	35.2	-14.3	5.5	26.9
Volume	-17.5	-7.9	-9.8	7.2	16.4
Unit value	43.0	46.7	-4.9	-1.6	9.0
Imports of goods					
Value	35.1	74.0	25.2	-12.1	3.0
Volume	17.9	40.3	11.8	-13.8	-3.3
Unit value	14.6	24.1	12.0	2.0	6.5
Terms of trade	24.8	18.3	-15.1	-3.5	2.3
<u>Indexes (1970 = 100)</u>					
Terms of trade	104.7	123.7	105.1	101.4	103.8
Purchasing power of exports of goods	79.7	93.0	70.7	72.9	86.9
Purchasing power of exports of goods and services	88.7	98.3	80.9	81.3	95.7

Source: CEPAL estimates on the basis of information supplied by the Banco Central de Reserva del Perú.

a/ Preliminary figures.

/(i) Exports.

(i) Exports. The growth of exports of goods was mainly due to the increase observed in mining exports, in particular the expansion in copper sales from 227 million dollars in 1976 to 392 million in 1977 (see table 12). This growth, due to the more intensive operation of new copper mines, could have been even greater had it not been for the declining trend in the world price of copper during the year (see table 13). Other mining products (iron, silver, lead) also showed significant increases and, therefore, mining exports increased their share in the total for the country. The higher values obtained for iron and silver were due to both increases in volume and an improvement in prices, while in the case of lead it was due only to improved prices. Exports of zinc, for their part, were adversely affected by a 15% drop in the average price, and in the case of petroleum the decrease in volume was not offset by the price increase.

As regards agricultural exports, an important feature was the expansion of coffee sales with the increase of about 94% in the average sales price. On the contrary, sugar was affected by a considerable reduction in the world price.

Non-traditional exports rose 74%, after a 43% growth in 1976. Among the most dynamic products were fishing vessels, canned fish, cotton yarn and fabrics, and a whole group of unidentified items included under the head of other non-traditional exports in table 12. The evolution of non-traditional exports is largely attributable to the incentives provided by the foreign exchange and prices policy adopted in the last two years.

(ii) Imports. Imports of goods rose by only 64 million dollars over the preceding year (3%), for reasons, as noted earlier, connected with the general recession in economic activity and, in particular, with the exchange and monetary measures adopted to curb the demand for imports. The unit value of imports is estimated to have risen by 6% in 1977 and, therefore, the corresponding volume declined by a little over 3%.

Imports of consumer goods fell 2%, added to the 11% drop recorded in the previous year. Imports of capital goods declined by 31%, after a fall of about 14% in 1976, this trend being consistent with that noted in gross fixed investment. The value of intermediate goods imported in 1977 was somewhat higher (2%) than in the previous year (see table 14).

Table 12

PERU: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Main traditional exports</u>	<u>1 287</u>	<u>1 133</u>	<u>1 203</u>	<u>1 468</u>	<u>88.5</u>	<u>85.1</u>	<u>-11.9</u>	<u>6.2</u>	<u>22.0</u>
Copper	301	156	227	392	16.7	22.7	-48.3	45.8	72.8
Zinc	150	152	192	164	14.1	9.5	0.7	26.4	-14.6
Fish meal	202	156	178	179	13.1	10.4	-22.8	13.9	0.8
Silver	141	146	145	173	10.7	10.0	3.8	-0.8	18.9
Coffee	35	53	101	196	7.4	11.4	52.9	89.8	94.4
Sugar	194	269	91	74	6.7	4.3	38.8	-66.1	-18.6
Cotton	97	53	71	48	5.2	2.8	-45.1	33.8	-32.3
Iron	75	52	64	91	4.7	5.2	-30.8	22.3	42.5
Lead	58	42	64	82	4.7	4.7	27.1	51.8	28.5
Petroleum and petroleum products	28	44	53	52	3.9	3.0	54.6	22.2	-2.1
<u>Main non-traditional exports</u>	<u>150</u>	<u>96</u>	<u>137</u>	<u>238</u>	<u>10.1</u>	<u>13.8</u>	<u>-36.3</u>	<u>42.7</u>	<u>74.0</u>
Fishing vessels	6	12	12	31	0.9	1.8	71.6	7.8	150.0
Frozen hake	10	9	17	13	1.3	0.8	-16.7	104.7	-23.6
Canned fish	5	4	7	18	0.5	1.0	-6.4	56.8	156.5
Cotton yarn and fabrics	2	1	5	24	0.4	1.4	-80.0	1250.0	344.4
Synthetic textile fibre	2	1	4	7	0.3	0.4	-35.3	263.6	62.5
Other non-traditional exports	125	70	91	145	6.7	8.4	-44.3	29.6	60.5
<u>Rest</u>	<u>68</u>	<u>61</u>	<u>21</u>	<u>19</u>	<u>1.4</u>	<u>1.1</u>	<u>-9.6</u>	<u>-65.5</u>	<u>-6.6</u>
<u>Total</u>	<u>1 506</u>	<u>1 290</u>	<u>1 360</u>	<u>1 725</u>	<u>100.0</u>	<u>100.0</u>	<u>-14.3</u>	<u>5.5</u>	<u>26.9</u>

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

Table 13

PERU: VALUE, VOLUME AND PRICES OF MAIN EXPORT PRODUCTS <sup>a/</sup>

	1974	1975	1976	1977 <sup>b/</sup>
<u>Fish meal</u>				
Value	201.8	155.8	177.5	179.0
Volume	629.0	746.0	625.0	430.0
Price	321.0	208.8	284.0	416.3
<u>Cotton</u>				
Value	96.5	53.0	70.9	48.0
Volume (thousands of quintals)	1 034.0	737.0	776.0	462.0
Price (dollars per quintal)	93.3	71.9	91.4	104.0
<u>Sugar</u>				
Value	193.9	269.1	91.2	74.2
Volume	462.2	421.8	296.1	399.5
Price (dollars per quintal)	19.3	29.3	14.2	8.8
<u>Coffee</u>				
Value	34.8	53.2	101.0	196.3
Volume	27.0	43.2	42.8	43.0
Price (dollars per quintal)	59.3	56.6	108.0	210.0
<u>Wool</u>				
Value	7.1	11.4	18.7	18.1
Volume	2.1	3.5	7.5	3.1
Price	3 460.0	3 260.0	2 490.0	5 749.0
<u>Copper</u>				
Value	301.1	155.7	227.0	392.3
Volume	183.6	151.9	181.9	331.3
Price (US cents per pound)	74.4	46.5	56.6	53.7
<u>Iron</u>				
Value	75.0	51.9	63.5	90.5
Volume (thousands of net legal tons)	9 731.0	4 975.0	4 470.0	6 122.0
Price (dollars per net legal tons)	7.7	10.4	14.2	14.8
<u>Silver</u>				
Value	140.9	146.3	145.1	172.5
Volume (metric tons of fines)	1 099.0	1 086.0	1 175.0	1 241.0
Price (US cents per Troy ounce)	398.5	419.1	384.2	432.3
<u>Lead</u>				
Value	57.5	41.9	63.6	81.7
Volume	148.2	128.1	179.8	171.6
Price (US cents per pound)	17.6	14.8	16.0	21.6
<u>Zinc</u>				
Value	150.4	151.5	191.5	163.5
Volume	422.1	405.9	432.3	433.9
Price (US cents per pound)	16.2	16.9	20.1	17.1
<u>Petroleum and petroleum products</u>				
Value	28.2	43.6	53.3	52.2
Volume (thousands of barrels)	2 198.0	4 069.0	4 742.0	4 104.0
Price (dollars per barrel)	12.8	10.7	11.3	12.7

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Value in millions of dollars, volume in thousands of metric tons, and price in dollars per metric ton, except where otherwise indicated.

<sup>b/</sup> Preliminary figures.



Table 14  
PERU: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976 <sub>a/</sub>	1977 <sub>a/</sub>	1970	1977 <sub>a/</sub>	1975	1976 <sub>a/</sub>	1977 <sub>a/</sub>
<u>Consumer goods</u>	<u>155</u>	<u>199</u>	<u>176</u>	<u>173</u>	<u>12.6</u>	<u>8.0</u>	<u>28.4</u>	<u>-11.3</u>	<u>-2.2</u>
Non-durable	103	103	...	...	10.3	...	0.8	...	...
Durable	52	96	...	...	2.3	...	82.4	...	...
<u>Intermediate goods</u>	<u>920</u>	<u>1 172</u>	<u>1 032</u>	<u>1 050</u>	<u>44.2</u>	<u>48.5</u>	<u>27.4</u>	<u>-11.9</u>	<u>1.7</u>
Petroleum and fuels	187	265	...	...	1.7	...	41.5	...	...
Others	733	907	...	...	42.5	...	23.8	...	...
<u>Capital goods</u>	<u>611</u>	<u>781</u>	<u>675</u>	<u>469</u>	<u>32.1</u>	<u>21.7</u>	<u>27.8</u>	<u>-13.5</u>	<u>-30.6</u>
<u>Total b/</u>	<u>1 908</u>	<u>2 389</u>	<u>2 100</u>	<u>2 164</u>	<u>100.0</u>	<u>100.0</u>	<u>25.2</u>	<u>-12.1</u>	<u>3.0</u>

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

b/ Includes adjustments, non-monetary gold, and other imports not elsewhere classified.

(iii) Terms of trade. With the 9% increase in the unit value of exports and the proportionally smaller rise in import prices, the terms of trade improved by a little over 2%, following the decline recorded in the previous two consecutive years. The terms-of-trade index (base 1970 = 100) showed a value of about 104 in 1977 (see table 11).

(d) Trade in services and factor payments

In 1977 the deficit in trade in services was reduced to 119 million dollars, while in 1976 it had reached 142 million. This was mainly due to a smaller negative balance under the head of freight and insurance, in line with the evolution of exports and imports of goods, and with a bigger positive balance for the country under the head of tourism (see table 15).

The negative balance for external factor payments grew rapidly in the last four years, mainly owing to the large increase in interest payments. These remittances rose from 130 million dollars in 1974 to 370 million in 1977.

(e) Current account balance and financing

In 1975 the current account deficit reached its highest level - 1,570 million dollars - about 280 million dollars higher than total exports of goods. Mainly in line with the trend in exports and imports of goods, the deficit dropped to 1,230 million dollars in 1976 and 960 million in 1977.

In order to finance the negative balance in 1977, recourse was had to a net external non-compensatory capital of 650 million dollars. Direct investment was only a little over 50 million dollars, which reflected a sharp reduction in mining investment during the period 1974-1976, and an increase in remittances of capital of foreign enterprises already established in Peru (see table 15).

Disbursements of long- and medium-term loans amounted to around 1,120 million dollars, or 160 million more than in 1976. Since amortization payments on this type of loan totalled 500 million dollars, the net inflow was 620 million, which determined the course followed by total external non-compensatory capital.

Table 15  
PERU: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1974	1975	1976	1977 <sup>a/</sup>
<b>Current account</b>				
Exports of goods and services	1 841	1 689	1 746	2 188
Goods FOB	1 506	1 291	1 361	1 726
Services	335	398	385	462
Transport	133	153	157	170
Travel	96	91	99	112
Imports of goods and services	2 442	3 038	2 627	2 745
Goods FOB	1 908	2 389	2 100	2 164
Services	534	649	527	581
Transport	292	351	308	320
Travel	64	86	57	36
Net payments of profits and interest on foreign capital	-172	-242	-371	-426
Profits	-42	-15	-44	-54
Interest	-130	-227	-327	-372
Net private transfer payments	21	17	19	19
Balance on current account	-752	-1 574	-1 233	-964
<b>Capital account</b>				
Net external financing (a+b+c+d+e)	752	1 574	1 233	964
(a) Net external non-compensatory capital	1 182	990	325	651
Direct investment	144	316	171	54
Long- and medium-term loans	1 211	1 181	956	1 117
Amortization payments	-444	-390	-451	-497
Short-term liabilities	244	-150	-388	-61
Official transfer payments	27	33	47	38
(b) Domestic non-compensatory capital or assets	...	...	...	...
(c) Errors and omissions	-148	7	31	17
(d) Allocation of SDRs	-	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-282	577	867	296
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	100	80	769	...
Variation in gross international reserves (minus sign signifies an increase)	-382	497	98	...
Foreign exchange reserves (minus sign signifies an increase)	-382	497	62	...
Gold reserves (minus sign signifies an increase)	-	-	36	...
SDRs (minus sign signifies an increase)	-	-	-	...

Sources: 1974-1976: International Monetary Fund, Balance of Payments Yearbook, vol. 28;

1977: CEPAL, on the basis of data supplied by the Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

/The insufficient

The insufficient inflow of non-compensatory capital compared with the size of the current account deficit resulted, as noted earlier, in a loss of net international reserves to a value of 300 million dollars, a relatively high figure but only one-third and half of the losses observed in 1976 and 1975, respectively (see table 16).

(f) External indebtedness

One of the most important analyses in understanding the present disequilibria in the Peruvian economy is that related to external indebtedness and the role it has played in the 1970s as a compensating element of the disequilibria existing both in the external sector and in the area of public finance. In this respect, since the early years of the decade a rapid increase was noted in the balance of the external debt and a hardening of the conditions under which the country obtained new external credit. The more stringent the foreign loans requirements, the less access there was to official resources with some degree of concessionality, and the greater on the other hand was the contracting of credit from private sources, with shorter repayment periods and higher costs.

Between 1972 and 1977 Peru's total external debt more than tripled, and in the latter year it reached 4,700 million dollars. The rate of external borrowing was particularly intense from 1973 to 1975, the growth rate diminishing in 1976 and 1977 (see table 17). In any case, exports of goods amounted to 150% of the total external debt in 1972, and 270% in 1975, this coefficient remaining constant in 1977.

Thus, debt servicing has compromised a considerable proportion of Peru's exports. As regards public debt servicing, the proportion was over 35% during the period 1975-1977.

Table 16

PERU: NET INTERNATIONAL RESERVES

(Millions of dollars, at end of the years indicated)

	Millions of dollars
<u>1973</u>	
December	411
<u>1974</u>	
March	237
June	276
September	490
December	693
<u>1975</u>	
March	699
June	131
September	178
December	116
<u>1976</u>	
March	-94
June	-553
September	-615
December	-752
<u>1977</u>	
January	-821
February	-843
March	-907
April	-924
May	-1 012
June	-1 046
July	-1 049
August	-1 101
September	-1 110
October	-1 132
November	-1 157
December	-1 048

Source: Banco Central de Reserva del Perú.

Table 17

PERU: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977
<u>Total external debt a/</u>	<u>1 424</u>	<u>1 814</u>	<u>2 563</u>	<u>3 474</u>	<u>4 074</u>	<u>4 700</u>
Public debt	1 121	1 491	2 182	3 066	3 641	4 252
Private debt b/	303	323	381	408	433	448
<u>Servicing of external debt</u>	<u>219</u>	<u>433</u>	<u>456</u>	<u>474</u>	<u>533</u>	<u>618</u>
Amortization payments	164	352	338	284	299	396
Interest payments	55	80	118	190	234	222
<u>Servicing of external debt, as a percentage of total exports</u>	<u>23.2</u>	<u>38.9</u>	<u>30.3</u>	<u>36.7</u>	<u>39.2</u>	<u>35.8</u>

Source: Banco Central de Reserva del Perú.

a/ Disbursed.

b/ Comprises the private debt, both guaranteed and not guaranteed by the State.

#### 4. Prices and wages and salaries

##### (a) Prices and anti-inflationary policy

The inflationary process which began in 1973 and was particularly accentuated up to 1976 was the result of a group of factors, outstanding among which, on the one hand, were the limitations of the country's production structure, especially as regards the inelasticity of the supply of food and products that might have reinforced the export base and, on the other hand, the sustained growth of domestic demand since the beginning of the 1970s. This was set off by the income and property redistribution policy in favour of the poorest social groups and by an expansive fiscal policy with precarious financing.

Added to the basic disequilibrium between domestic supply and demand were the effects of inflation in the industrialized countries, since the end of 1973, which were internalized mainly via a sharp rise in the unit value of imports. Concurrently, imports grew rapidly in 1973-1975, fostered by the increment in domestic demand, the increasing under-valuation of the dollar and a clearly rising external indebtedness.

Up to the middle of 1975, anti-inflationary policy attempted to achieve the definite stability of domestic prices and to that end it was based on the implementation of measures for controlling prices, providing subsidies for a group of essential products and maintaining the nominal exchange parity. Nevertheless, consumer prices which had increased 4% in 1972 rose 14% in 1973 and 19% in 1974 (see table 18).

As time went on, the growing number of Government subsidies aggravated the problems of fiscal financing and their consequent impact on the monetary system. At the same time, the evolution of the domestic economy and the effects of the world recession accentuated the existing maladjustments, so that in 1975 there arose a great need for external saving to a value higher than that of exports of goods in that same year.

Table 18  
PERU: EVOLUTION OF DOMESTIC PRICES

	1972	1973	1974	1975	1976	1977
<u>Indexes (annual averages)</u>						
Consumer price index	91.3	100.0	116.9	144.5	192.9	266.3
Food	90.8	100.0	118.8	157.8	208.4	292.3
Wholesale price index	...	100.0	116.8	144.7	200.4	293.6
Imported products	...	100.0	127.4	161.4	220.6	355.4
Domestic products	...	100.0	113.9	140.2	194.9	216.8
Livestock (or crop-farming) products	...	100.0	113.9	143.9	195.1	274.3
Manufactures	...	100.0	114.0	138.1	195.2	279.5
Building materials	96.3	100.0	110.6	126.7	207.7	299.3
<u>Variation from December to December</u>						
Consumer price index	4.3	13.8	19.2	24.0	44.7	32.4
Food	2.2	14.8	24.1	31.2	44.5	33.0
Wholesale price index	...	...	...	...	...	43.3
Imported products	...	...	...	...	...	70.6
Domestic products	...	...	...	...	...	30.5
Agricultural products	...	...	...	...	...	27.3
Manufactures	...	...	...	...	...	39.1
Building materials	2.9	6.7	10.5	18.1	99.3	19.4
<u>Annual average variation</u>						
Consumer price index	7.2	9.5	16.9	23.6	33.5	38.1
Food	7.4	10.1	18.8	32.8	32.5	40.3
Wholesale price index	...	...	16.8	23.8	38.5	46.5
Imported products	...	...	27.4	26.8	36.7	61.1
Domestic products	...	...	14.0	23.0	39.1	42.0
Agricultural products	...	...	14.0	26.3	35.6	40.6
Manufactures	...	...	14.1	21.1	41.4	43.1
Building materials	3.5	3.9	10.6	14.5	63.9	44.1

Source: National Institute of Statistics (INE).

/From 1975



From 1975 onwards, and especially since the middle of 1976, there was a change in economic policy oriented towards the suppression of subsidies and more flexibility as regards the exchange rate and price controls, while steps were taken to moderate the inflationary propension of the fiscal and financial variables. Thus there began to emerge price pressures that had been contained, and imported inflation was more easily internalized. The consumer price index accelerated its rate of growth in 1975 and 1976, recording variations of 24% and 45%, and diminishing to 32% in 1977. Food prices continued to rise more rapidly than other prices, as had occurred in 1973-1974.

The wholesale price index grew by 43% in 1977; imported products rose 71% while domestic products increased by 31%, which reflects the impact of the exchange policy pursued on the evolution of the price system (see table 18).

(b) Wages and salaries

According to available data for metropolitan Lima,<sup>8/</sup> real income from labour deteriorated by over 30% in the period between September 1973 and June 1977,<sup>9/</sup> a trend which was accentuated as from April 1976. At the same time, the proportion of national income represented by wages and salaries dropped from 51% in 1972 to 46% in 1976, which is the lowest percentage recorded in the last 16 years.<sup>10/</sup>

In 1977, with the purpose of compensating for the workers' loss of purchasing power due to inflation, the Government decreed successive wages increases (in January, June and August) for both the public and the private sector, which mainly favoured the income group earning less than 18,000 soles a month.<sup>11/</sup> In addition, collective labour agreements were made more flexible,

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<sup>8/</sup> Data supplied by the Ministry of Labour, Employment Department, on the basis of the household survey.

<sup>9/</sup> This estimate is the result of comparing the increase in the index of nominal income with the respective increase in the consumer price index; it is therefore subject to the limitations inherent in this method of calculation.

<sup>10/</sup> See Banco Central de Reserva del Perú, Cuentas nacionales 1960-1974 and Memoria 1976.

<sup>11/</sup> On average, equal to about 200 dollars a month in 1977.

the previously existing ceilings being eliminated, and the minimum wages and salaries were raised throughout the country. However, although the nominal minimum salary rose by 20% in 1977, it decreased in real terms by 9%, over and above the 12% and 5% recorded in 1976 and 1975, respectively (see table 19).

Real wages and salaries of public workers continued to decline in 1977, despite the adjustments granted from 1975 onwards, which were proportionately higher for the lower categories than for the upper categories of the public administration. Thus at the lowest level (Grade VI-7) the reductions were approximately 4% in 1977 and 15% in 1976. In contrast, at the other end of the scale, for the highest level (I-1) the comparable drops were 21% and 26% in the two years considered.

#### 5. Monetary and fiscal policy

Since 1975 the real liquidity of the economy began to decline and during the whole period 1975-1977 the proportional variations in the means of payment were smaller than the changes in domestic prices. The loss of net international reserves had a strong contractive effect, while Government credit expanded very rapidly to cover the growing fiscal deficit. Domestic credit to the private sector increased more slowly than prices, and the expansion of quasi-money was also fairly limited, except in 1977.

Since the beginning of the 1970s, the public finances have shown a fundamental contraction which is the basic explanation for the fiscal disequilibria. In the first place, a sharp expansion of public expenditure, both current and capital, was promoted in consonance with the State's role as conductor of the national economy. Secondly, the factors determining the slow and insufficient growth of current Government income not only persisted but were accentuated. Thus, tax pressure dropped from 14% in 1970 to 13% in 1977,<sup>12/</sup> owing to the low degree of progressiveness and elasticity of the tax system, and also to the proliferation of exemptions and of tax evasion and fraud. This led to a growing inability to use current resources to finance part of public investment, and it was necessary to have increasing recourse to internal and external borrowing.

<sup>12/</sup> Calculated as the ratio of tax income (net of tax refunds) to the gross domestic product. Source: Banco Central de Reserva del Perú.

Table 19  
PERU: EVOLUTION OF WAGES AND SALARIES  
(Soles)

	At end of				Growth rates			
	1974	1975	1976	1977	1974	1975	1976	1977
<b>Nominal wages and salaries</b>								
Minimum salary <u>a/</u>	3 000	3 540	4 500	5 400	25.0	18.0	27.1	20.0
General government <u>b/</u>								
Level I - 1	30 000	31 600	33 940	35 570	0.0	5.3	7.4	4.8
Level VI - 7	5 900	7 500	9 166	11 606	0.0	27.1	22.2	26.6
<b>Real wages and salaries <u>c/</u></b>								
Minimum salary <u>a/</u>	2 518	2 395	2 104	1 906	4.6	-4.9	-12.2	-9.4
General government <u>b/</u>								
Level I - 1	25 188	21 380	15 874	12 560	-16.0	-15.0	-25.8	-20.9
Level VI - 7	4 953	5 074	4 287	4 098	-16.0	2.4	-15.5	-4.4

Source: National Institute of Statistics (INE), and Ministry of Labour.

a/ For the private sector in the Lima province.

b/ Maximum categories (level I - 1), and minimum categories (level VI - 7).

c/ Deflated by the general consumer price index in the metropolitan Lima area (base: December 1973 = 100).

(a) Monetary policy

In 1977 the monetary situation continued to show the trends observed since 1975 and especially since the middle of 1976. The deterioration in real liquidity continued to restrict the financing of the working capital of production units, which also had an urgent need for increasing financial resources to cover imports at a time when the rate of exchange was experiencing sharp devaluations. This affected production activity, particularly of the small- and medium-sized national enterprise owing to its limited financial backing.

In 1977 the means of payment increased by 21%, while the increase in consumer prices was 32%. A similar situation had arisen in 1976, although the difference was greater since money grew by 25% and the rise in prices was 45% (see tables 18 and 20). Quasi-money, which grew slowly in 1975 and 1976, increased by 39% in 1977, probably owing to the rise in nominal interest rates. Thus, the total liquidity coefficient in relation to the gross domestic product continued to decline, and is estimated to have reached 21% in 1977 and 32% in 1974.<sup>13/</sup>

A study of the behaviour of the factors of expansion shows that total domestic credit grew by 35%, i.e., at a lower rate than in 1976, basically owing to the slowing down of the growth of credit to the Government and public institutions, and also to the private sector. In 1977, as in previous years, the external sector acted as an element of absorption, reflecting the evolution of the balance of payments and the consequent reduction in net international reserves of the monetary authorities by the equivalent of 51 billion soles, a figure equal to 60% of the absolute variation in total domestic credit.

The flow of credit from banks to the public sector was basically channelled through the Banco de la Nación, which in 1977 financed 80% of such credit. Nevertheless, because of the heavy pressures of the public sector on Banco de la Nación financing, this bank had increasing recourse to credit from the Banco Central de Reserva, in view of the more limited possibilities of increasing its external liabilities, and its own limitations as regards tapping resources of the private sector. This meant an increasingly close relation between credit to the public sector and primary issue.

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<sup>13/</sup> Estimates on the basis of data from the Banco Central de Reserva del Perú.

Table 20  
PERU: MONETARY POSITION

	Balance at end of each year in billions of soles <sup>a/</sup>				Growth rates		
	1974	1975	1976	1977 <sup>b/</sup>	1975	1976	1977 <sup>b/</sup>
<u>Money</u>	<u>101.4</u>	<u>118.9</u>	<u>149.0</u>	<u>180.2</u>	<u>17.3</u>	<u>25.3</u>	<u>20.9</u>
Currency outside banks	33.5	42.6	49.5	60.4	27.2	16.2	22.0
Demand deposits	67.9	76.3	99.5	119.8	12.4	30.4	20.4
<u>Factors of expansion</u>	<u>141.3</u>	<u>166.7</u>	<u>185.0</u>	<u>221.6</u>	<u>18.0</u>	<u>11.0</u>	<u>19.8</u>
Foreign assets (net)	26.8	5.1	-64.6	-115.5	-81.0	-	-
Domestic credit	114.5	161.6	249.6	337.1	41.1	54.5	35.1
Government (net)	24.5	37.9	81.4	121.1	54.7	114.8	48.8
Official entities	27.1	41.6	60.3	77.7	53.5	45.0	28.9
Private sector	47.9	62.6	79.0	95.3	30.7	26.2	20.6
Credit to development banks	15.0	19.5	28.9	43.0	30.0	48.2	48.8
<u>Factors of absorption</u>	<u>39.9</u>	<u>47.8</u>	<u>36.0</u>	<u>41.4</u>	<u>19.8</u>	<u>-24.7</u>	<u>15.0</u>
Quasi-money (savings and time deposits)	21.2	23.3	26.9	36.3	9.9	15.5	38.7
Long-term foreign borrowing	5.3	9.3	11.6	14.3	75.5	24.7	23.3
Other items (net)	13.4	15.2	-2.5	-10.2	13.4	-	-

Sources: 1974-1976: International Monetary Fund, International Financial Statistics, December 1977;  
1977: Banco Central de Reserva del Perú, Cuentas monetarias.

<sup>a/</sup> Exchange rate used (soles per US dollar): 1974: 38.70; 1975: 45.00; 1976: 66.00; 1977: 110.00.

<sup>b/</sup> Preliminary figures.

(b) Fiscal policy

From the start of the implementation of the 1977 fiscal budget it was foreseeable that there would be a marked rise in the total deficit whose financing would entail the use of substantial resources from the national banking system. The growing proportion of total expenditure represented by service payments on the public debt was also observable, while at the same time tax pressure continued at its customary level despite the tax measures adopted in 1976. (A new ad valorem tax of 15% on traditional exports and increases in the rates for cigarettes, transport and imports of capital goods, and in the tax on goods and services from 17 to 20%.)

In the face of these prospects, the Government adopted a number of additional measures in the second half of 1977. With the purpose of increasing the fiscal resources, the rates for taxes on passports, transport, wages and salaries, alcohol and alcoholic beverages were raised; a new tax was levied on petroleum products (except gasoline); an exceptional net-worth tax was imposed on enterprises; and the payment of taxes on goods and services for January 1978 was advanced. At the same time, prices and rates of goods and services produced or sold by public enterprises were raised, as had occurred in 1976. In addition, the fiscal budget approved at the beginning of the year was reduced by 8%, and a further reduction of 4 billion soles was made in August, while spending on wages and salaries and purchases of goods and services was strictly controlled.

In any case, at the end of the financial year a deterioration was observed in the position of the current account, the deficit of 11 billion soles in 1976 growing to 39 billion in 1977. The total fiscal deficit increased to a level of 113 billion soles, or the high coefficient of 42% of total expenditure (see table 21).

Current income rose by 38%, or at the same rate as inflation. The increase in tax revenue was 44%, the main increments being in the amount obtained from taxes on income and property (52%) and exports (103%). In the former case, the increase was basically due to the measure referred to above, and in the latter to the greater dynamism of exports and the tax and exchange measures adopted in 1976 and 1977 (see table 22).

Table 21  
PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of soles at current prices				Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
1. <u>Current income</u>	68.6	87.9	111.4	154.1	28.2	26.7	38.3
Tax revenue	60.7	80.6	101.0	145.6	32.9	25.3	44.2
Non-tax revenue <sup>b/</sup>	8.9	9.0	13.4	15.0	1.1	48.9	11.9
Less: tax refund <sup>c/</sup>	(1.0)	(1.7)	(3.0)	(6.5)	69.2	72.7	115.3
2. <u>Current expenditure</u>	62.4	90.5	122.7	193.1	44.9	35.6	57.3
Wages and salaries	29.1	38.8	51.5	70.3	33.5	32.7	36.5
Interest	7.7	9.4	13.2	29.2	22.5	39.9	121.4
Internal debt	(4.2)	(4.5)	(5.5)	(13.6)	(5.5)	(23.2)	(146.4)
External debt	(3.5)	(4.9)	(7.7)	(15.6)	(43.7)	(54.9)	(103.4)
Other current expenditure	25.6	42.3	58.0	93.6	65.2	37.1	61.4
3. <u>Saving on current account</u> (1 - 2)	6.2	-2.6	-11.3	-39.0	157.3	433.6	244.9
4. <u>Capital expenditure</u>	36.3	40.9	53.2	74.0	12.7	30.1	39.1
Gross capital formation	12.9	15.9	19.8	27.1	22.5	25.1	36.6
Other capital expenditure	7.3	12.1	17.3	13.0	65.8	43.0	-24.9
Amortization payments	16.1	12.9	16.1	33.9	-19.9	24.8	110.6
Internal debt	(6.2)	(6.9)	(7.8)	(10.9)	(11.3)	(13.0)	(39.7)
External debt	(9.9)	(6.0)	(8.3)	(23.0)	(-39.4)	(38.3)	(177.1)
5. <u>Total expenditure</u> (2 + 4)	98.7	131.4	175.9	267.1	33.1	33.9	51.8
6. <u>Fiscal deficit (or surplus)</u> (1 - 5)	-30.1	-43.5	-64.5	-113.0	44.5	48.3	75.2
7. <u>Financing of deficit</u>	30.1	43.5	64.5	113.0	44.5	48.3	75.2
Domestic financing	9.5	20.7	40.6	55.4	117.9	96.1	36.5
External financing	20.6	22.8	23.9	57.6	10.7	4.8	141.0

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Including wage and salary discounts for pension fund.

<sup>c/</sup> Mainly include tax refund certificates for export promotion.

Table 22

PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of soles				Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Tax revenue	60.7	80.6	101.0	145.6	32.9	25.3	44.2
Tax on income and property	24.1	24.6	30.2	43.0	2.3	22.9	52.4
Tax on exports	2.2	5.6	6.0	16.2	154.6	5.9	103.0
Tax on import	10.3	18.2	17.9	19.6	76.7	-1.1	9.5
Tax on production and consumption	24.1	32.2	46.9	66.8	33.5	45.4	42.5
Less: tax refund <sup>b/</sup>	-1.0	-1.7	-3.0	-6.5	69.2	72.7	115.3
Wage and salary discounts for pension fund	2.1	2.6	3.1	4.1	23.2	20.9	29.7
Non-tax revenue	6.8	6.4	10.2	10.8	-5.7	59.7	5.3
<u>Current income</u>	68.6	87.9	111.4	154.1	28.2	26.7	38.3

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Mainly tax refund certificates for export promotion.

/In 1977,



In 1977, current fiscal expenditure grew by 57%; particularly noticeable was the sharp rise in interest on the public debt (121%) and other current expenditure (61%) which includes Government transfers. Among the capital expenditures, although central government gross capital formation grew by 37%, it was noted that capital transfers to public enterprises dropped by 25%, which together resulted in a decline of over 20% in real terms in public sector investment. Amortization of the debt rose 111%, mainly owing to the increase in the external debt.

In the financing of the total fiscal deficit there was a considerable increase in the share of external resources, including certain items covering the refinancing of external debt servicing. Domestic financing meanwhile rose 37% (see table 21).

## DOMINICAN REPUBLIC

### 1. The overall picture

During 1977 the growth of the economy continued to falter. There was a rise of only 3.3% in the gross domestic product, so that the per capita product remained unchanged. The increase was the smallest recorded for ten years: in the first three years of the 1970s the GDP grew by 11% a year, while between 1974 and 1976 the rate was slightly under 6% (see table 1).

However, in contrast to 1976, when the fall in sugar prices led to a profound deterioration in the terms of trade, which in turn caused a drop in gross income, income in 1977 rose slightly more (3.5%) than GDP, as a result of exceptionally high prices for coffee and cocoa, which offset a further fall in the price of sugar and helped to improve the terms of trade.

Analysis of the evolution of the GDP since 1974 shows that, with a few exceptions, all sectors were involved in this loss of impetus, including manufacturing and - to a lesser extent, because of its large fluctuations - construction. These two sectors have in the past distinguished themselves by rapid, sustained growth, which to some degree was passed on to other sectors.

Manufacturing output continued to grow in 1977 within the same range of low rates (3 to 4%) recorded since 1975, despite an appreciable improvement in the supply of electricity, shortages of which had previously hampered the growth of the sector. Construction, meanwhile, recovered from its meagre growth in 1976 and expanded by 10% in 1977. A major cause of this was the renewed activity in public investment.

Nevertheless, the sector which played the most important role in the evolution of the economy was agriculture, which is the dominant contributor both to total output and to exports. Drought, though not as severe as in 1975, affected agricultural production, especially for domestic consumption, and led to a new burst of domestic price rises and higher food imports.

/Table 1

Table 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (Millions of US dollars at 1970 prices)	1 865	2 105	2 231	2 343	2 480	2 562
Population (millions)	4.64	4.79	4.95	5.12	5.29	5.47
Per capita gross domestic product (US dollars at 1970 prices)	402	439	451	458	469	468
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	10.4	12.9	6.0	5.0	5.9	3.3
Per capita gross domestic product	6.9	9.3	2.6	1.6	2.4	-0.1
Gross income <sup>b/</sup>	11.2	12.7	8.4	11.3	-1.6	3.5
Terms of trade	4.8	-3.6	13.3	40.3	-32.9	4.0
Current value of exports of goods and services	41.0	24.8	42.3	37.4	-17.2	8.8
Current value of imports of goods and services	8.2	27.8	62.3	9.8	-0.8	10.6
Consumer price index <sup>c/</sup>						
December to December	8.0	17.2	10.5	16.5	7.0	8.5
Variation between annual averages	7.9	15.1	13.2	14.5	7.9	12.8
Money	16.2	18.6	38.2	5.8	0.8	17.9
Current income of government	12.7	14.0	32.3	37.7	-11.3	9.9
Total expenditure of government	9.5	15.9	32.5	27.3	-12.9	8.8
Fiscal deficit/total expenditure of government <sup>d/</sup>	0.6	-	1.6	0.6	2.6	1.6
<b>Millions of US dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-31	-52	-187	-4	-168	-201
Balance on current account	-49	-100	-244	-64	-221	-283
Variation in net international reserves	19	21	10	28	-11	58
Disbursed external debt	472	505	595	677	808	915

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> General index of consumer prices in Santo Domingo.

<sup>d/</sup> Percentage.

/In 1976,

In 1976, as a result of adequate rainfall, agricultural output increased at the exceptional rate of over 9%. In contrast, the rise was only 1.4% in 1977, despite the fact that livestock production did not suffer greatly from the drought and that sugar cane, coffee and rice output increased.

The mining sector performed poorly in 1977, in contrast to the previous year. The service sectors continued the downward trend which began in 1973, reflecting the slow down in the goods-producing sectors.

While levels of output were low in 1977, foreign trade made a strong recovery. The value of exports of goods and services, which had dropped by 17% in 1976 as a result of plummeting sugar prices, rose by 9% in 1977 thanks to a sharp increase in the prices of coffee (70% in each of the last two years) and cocoa (which doubled in 1977), making up for lower revenues from sugar sales.

At the same time, imports of goods and services grew by 11% in 1977, the rise being largely due to the larger purchases of food products which were necessary to supplement lower domestic production.

The divergent trends as between imports and exports further worsened the trade balance, and the current account deficit rose to 280 million dollars, equivalent to almost a third of total income from exports of goods and services. Nevertheless, as a result of a substantial inflow of capital during the year, international reserves increased by about 60 million dollars.

The sharp drop in world sugar prices in 1976, together with stagnation in imports, led to a substantial fall in revenue from taxes on external trade and a decline of about 12% in government income and expenditure. The most seriously affected expenditure heading was investment.

The fiscal situation improved in 1977, when income arising from external trade recovered and taxes on domestic transactions maintained a high rate of growth. This permitted some increase in expenditure, especially current expenditure, which increased by about 13%: a similar rate to that of domestic prices.

There was a significant rise in domestic prices in 1977, although not to the extent observed between 1973 and 1975. The consumer price index, measured in terms of annual averages, rose by 12.8% in 1977 as compared with 7.9% in 1976.

/The same

The same factors which in 1976 caused a fall in food prices and limited the increase in the overall index produced the opposite effect in 1977.

Firstly, it was not possible to ensure normal supplies of staple foodstuffs until September. In addition, there was considerable growth in the money supply (18% between December 1976 and December 1977), principally as a result of freer domestic credit. It may be noted that, in comparative terms, the means of payment increased by less than 1% between December 1975 and December 1976 (see table 1).

## 2. Sectoral trends

### (a) Developments in overall supply and demand

In the past three years the overall supply of goods and services has expanded at the low rate of roughly 3.5% a year. Imports, making up about a sixth of total supply, have offset fluctuations in domestic production. In 1975 and 1976 the volume of imports fell despite the substantial purchases of food which were necessary in 1975 to make up the deficit resulting from the drought. In 1977, in contrast, the rise in imports in real terms was somewhat higher than the rise in the GDP (see table 2).

The evolution of domestic demand in the past three years, however, has not been so smooth, as a result of considerable fluctuations in external demand. After declining by more than 9% in 1975, the volume of exports of goods and services made a strong recovery in 1976, but fell back by about 2% in 1977.

On the other hand, domestic demand rose by more (4.3%) in 1977 than in 1976, when the fall in capital formation led to a rise of only 2.4%.

Gross fixed capital investment, which had expanded at an annual rate of 18% during the first half of the decade, dropped by about 7% in 1976, reflecting lower imports of machinery and equipment in that year and reduced activity in construction.

The ratio of fixed investment to the GDP, which had risen from 17 to 25% between 1970 and 1975, fell as a result to 22% in 1976.

/Table 2

Table 2  
DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<b>Total supply</b>	<b>2 843</b>	<b>2 944</b>	<b>3 045</b>	<b>124.5</b>	<b>121.9</b>	<b>3.5</b>	<b>3.6</b>	<b>3.4</b>
Gross domestic product at market prices	2 285	2 418	2 498	100.0	100.0	5.0	5.8	3.3
Imports of goods and services <sup>b/</sup>	558	526	547	24.5	21.9	-2.4	-5.7	4.0
<b>Total demand</b>	<b>2 843</b>	<b>2 944</b>	<b>3 045</b>	<b>124.5</b>	<b>121.9</b>	<b>3.5</b>	<b>3.6</b>	<b>3.4</b>
Domestic demand	2 458	2 516	2 624	107.3	104.2	5.8	2.4	4.3
Gross domestic investment	624	599	...	19.1	...	10.3	-4.1	...
Gross fixed investment	579	540	...	16.6	...	13.7	-6.8	...
Construction	322	329	...	9.9	...	13.0	2.2	...
Machinery and equipment	257	211	...	6.7	...	14.7	-18.0	...
Public	244	215	...	5.1	...	39.3	-11.8	...
Private	335	325	...	11.4	...	0.3	-3.1	...
Changes in stocks	45	59	...	2.5	...			
Total consumption	1 834	1 917	...	88.2	...	4.4	4.5	...
General government	162	178	...	11.6	...	-27.5	10.3	...
Private	1 672	1 739	...	76.6	...	9.0	4.0	...
Exports of goods and services <sup>b/</sup>	385	428	421	17.2	17.7	-9.3	11.2	-1.6

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic;  
1977: CEPAL estimates on the basis of preliminary data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

In the first five years of the decade public investment increased at an annual rate of 23%, i.e., faster than private investment. In 1975 the public sector was responsible for 42% of fixed investment. Public sector investment fell in 1976 by 12%, while information available for 1977 indicates a nominal rise of 7%, but in view of rises in prices, investment by the Government clearly dropped in 1977 in real terms.

(b) Growth in the principal sectors

Rapid industrialization based on import substitution, the new importance of mining following the initiation of exploitation of ferro-nickel, and hectic activity in construction of housing, hotels, public works in the towns and infrastructure in general were the fundamental causes of the significant increase in GDP in the first three years of the decade. At the same time agriculture was maintaining a satisfactory growth rate of 6% a year. This trend began to tail off in 1974 in all sectors, including industry and construction, culminating in an increase in GDP in 1977 of barely 3.3% (see table 3).

In 1977 agriculture, the sector on which all others depend, grew by only just over 1%, after the extraordinary results of 1976. To this must be added the decline in mining output and the persistently low levels of manufacturing production in recent years (see table 4). Production of rice, which is an important element of the daily diet, increased by little over 5% and production of tomatoes by somewhat over 10%.

The sugar harvest hit new record levels of 10.9 million and 11.1 million tons in 1976 and 1977. Sugar cane plantations cover 26% of the cultivated area of the country, and sugar cane production represents about 14% of the agricultural product at 1970 prices.

There were also rises in 1977 in the output of coffee and cocoa (5.6 and 4.2% respectively), whereas leaf tobacco, another product important among exports and also as an input for domestic industry, dropped by 23%. As a result of the performance recorded for these and other products, the volume of agricultural exports rose by 6% in 1977. In this group particular mention should be made of the export of 40,000 tons of coffee, the biggest foreign sale of the decade, and the near-record sale of 1.1 million tons of sugar.

Table 3

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates <u>b/</u>		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	396	433	439	25.8	19.8	-2.5	9.4	1.4
Mining	118	143	139	1.7	6.3	7.4	21.7	-3.1
Manufacturing	332	342	355	16.7	16.0	3.6	3.1	3.7
Construction	159	163	179	5.5	8.1	13.0	2.3	9.9
<u>Subtotal goods</u>	<u>1 005</u>	<u>1 081</u>	<u>1 112</u>	<u>49.7</u>	<u>50.2</u>	<u>2.9</u>	<u>7.6</u>	<u>2.8</u>
Electricity, gas and water	30	31	38	1.3	1.7	6.8	3.2	22.3
Transport, storage and communications	180	186	191	8.5	8.6	4.5	3.2	2.5
<u>Subtotal basic services</u>	<u>210</u>	<u>217</u>	<u>229</u>	<u>9.8</u>	<u>10.3</u>	<u>4.8</u>	<u>3.2</u>	<u>5.3</u>
Commerce, financial institutions and insurance	277	294	302	12.7	13.6	6.3	5.9	3.0
Real estate <u>c/</u>	149	159	175	7.6	7.9	5.7	6.6	9.9
Public administration	182	187	180	11.5	8.1	7.9	3.0	-4.0
Miscellaneous services <u>d/</u>	206	213	219	8.7	9.9	11.4	2.9	3.2
<u>Subtotal other services</u>	<u>814</u>	<u>853</u>	<u>875</u>	<u>40.5</u>	<u>39.5</u>	<u>7.8</u>	<u>4.6</u>	<u>2.8</u>
<u>Total gross domestic product <u>e/</u></u>	<u>2 039</u>	<u>2 151</u>	<u>2 229</u>	<u>100.0</u>	<u>100.0</u>	<u>5.0</u>	<u>5.9</u>	<u>3.3</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic;  
1977: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ Rates calculated on the basis of unrounded figures.

c/ Ownership of dwellings only.

d/ Including restaurants, hotels and business services.

e/ As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.



Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	Breakdown in 1976 <sup>a/</sup> (percentage)	1974	1975	1976	1977 <sup>b/</sup>	Growth rates		
						1975	1976	1977 <sup>b/</sup>
<u>Index of agricultural production (1970 = 100)</u>	100.0	118.8	115.9	126.7	128.5	-2.4	9.3	1.4
Crop farming	67.4	119.9	112.9	126.7	127.7	-5.8	12.2	0.8
Sugar-cane	(14.2)	117.0	107.9	126.3	128.7	-7.8	17.1	1.9
Stock-raising	29.9	115.2	121.7	126.7	130.3	5.6	4.1	2.8
Forestry and fishing	2.7	133.0	125.6	127.7		-5.6	1.7	
<u>Production of some crops (thousands of tons)</u>								
Sugar-cane		10 130.6	9 337.0	10 932.2	11 139.8	-7.8	17.1	1.9
Paddy rice		259.4	218.6	294.3	310.0	-15.7	34.6	5.3
Coffee cherries		108.6	103.7	114.0	120.4	-4.5	9.9	5.6
Cocoa beans		38.3	30.9	33.1	34.5	-19.3	7.1	4.2
Leaf tobacco		33.7	34.6	45.4	34.9	2.9	31.1	-23.1
Tomatoes		121.8	132.8	123.0	135.8	9.0	-7.4	10.4
Guinea bananas <sup>c/</sup>		13 313.0	13 467.0	13 998.0	14 190.0	1.2	3.9	1.4

Sources: Central Bank of the Dominican Republic, Cuentas Nacionales 1970-1976; CEPAL, on the basis of preliminary information obtained directly from official sources.

a/ Calculated on the basis of aggregate values at 1970 prices.

b/ Preliminary figures.

c/ Thousands of hands.

/Livestock raising,

Livestock raising, which contributes about 30% of the product of the agricultural sector, has experienced three fairly mediocre years, with a growth rate of the order of 4%. This rate might have been higher but for a decline in output from poultry raising following lower consumption of poultry in 1976, which appears to have continued in 1977.

Since 1973 there has been a marked increase in the volume of food imported in order to make up shortfalls in domestic production, with substantial quantities of rice and maize added to the traditional imports of wheat and oils. The principal importer of these products is the National Price Stabilization Institute (INESPRE), except in the case of wheat, which the State company Molinos Dominicanos is responsible for importing.

The recovery in construction was insufficient to alter the general trend. Apart from a few rare exceptions, the service sectors also experienced this general loss of impetus.

(i) Agricultural production. The very favourable rainfall during the 1975/1976 season lead to a 9.4% increase in production from the agricultural sector, and 12% from crop farming. In 1977, however, the situation changed radically because of a drought in the first half of the season, which fortunately was not as serious as in 1975.

Except in 1976, slow growth in agriculture has held back the remainder of the economy. The share of agriculture in the GDP, which at the beginning of the decade was more than 25%, fell to a fifth by 1977. However, this figure does not reflect the full extent of the influence of agriculture on industry, commerce, exports and employment.

It is calculated that about half the active population is engaged in agriculture, though much of it is underemployed. Annual exports of sugar and other products from the agricultural sector total some 550 million pesos, representing about 70% of total exports of goods.

In 1977, the lack of rain until the beginning of April principally affected products destined for the domestic market. According to the meagre information available for 1977, agricultural production would appear to have increased by less than 1%, despite the good results for sugar and other major export crops.

/In 1976

In 1976 120,000 tons of wheat, 56,000 tons of rice (equivalent to 29% of domestic production), 60,000 tons of maize (23% more than domestic production), 9,000 tons of beans (25% of production) and more than 32,000 tons of edible oils were imported. In 1977 the value of imports of cereals rose by 30% and that of edible oils 60%.

The process of agrarian reform has faltered in the past four years. The number of beneficiaries settled under this process dropped from an annual average of 6,160 between 1971 and 1973 to 2,400 between 1974 and 1976, and the area transferred fell from 32,000 to 12,000 hectares. Allocation of land was much reduced in 1977. During the first six months, the Dominican Agrarian Institute, which is responsible for the reform, is reported to have allocated only 200 hectares to 49 beneficiaries. Undoubtedly this is connected with the Institute's new policy of granting in the future only land which has not been worked before.

(ii) Mining. Between 1972 and 1973 mining gained some importance, when a start was made on mining and exporting ferro-nickel. Between 1975 and 1976 a similar step forward was taken with the mining of gold and silver by the foreign company Rosario Dominicana. This company has thus joined the Alcoa Exploration Company, which has been operating the bauxite deposits for many years, and Falconbridge, which holds the concession for the ferro-nickel deposits. As a result, the contribution of mining to the total GDP rose from 1.3% in 1971 to 6.3% in 1977, while over the same period the value of mining exports increased from 18 million dollars to 170 million dollars.

Though higher prices were obtained for sales of bauxite and ferro-nickel in 1975 and 1976, there was a decline in external demand for the two products, which was one cause of the drop in production in 1976. The rise of 22% recorded in mining output in that year was wholly attributable to the beginning of production of gold and silver alloy (see table 5).

For 1977 preliminary figures indicate a 3% fall in output from mining. The amount of ferro-nickel extracted increased by just over 2%, while there was a fall of 7% for bauxite. Gold production also dropped (by 17%), whereas silver output more than doubled.

/Table 5

Table 5  
DOMINICAN REPUBLIC: MINING PRODUCTION

	Volume of out put					Growth rates			
	1973	1974	1975	1976	1977 <sup>a/</sup>	1974	1975	1976	1977 <sup>a/</sup>
Production of some important minerals									
Bauxite (thousands of tons)	1 086	1 196	785	621	575	10.1	-34.4	-20.9	-7.3
Ferro-nickel (thousands of tons)	28	30	75	64	66	7.8	144.7	-14.0	2.2
Gold (kilograms)	-	-	5 613	12 842	10 660	-	-	128.8	-17.0
Silver (kilograms)	-	-	2 782	27 714	57 609	-	-	896.2	107.9
Gypsum (thousands of tons)	267	384	196	185	175	43.8	-49.0	-5.6	-5.4

Source: ONAPLAN, Indicadores básicos, 1977.

a/ Preliminary information.

/Exports of

Exports of mining products performed rather better. The volume of ferro-nickel exported fell from 68,000 tons to 61,000 tons, but bauxite exports rose from 627,000 tons to 774,000 tons and exports of doré (gold and silver alloy) increased from 41 to 51 tons.

At the end of 1976 negotiations with the Rosario Dominicana Company were concluded. Among the points agreed were that the Central Bank's share in the Company's capital should be raised to 46%, and that the Government's share in its gross profits should also be increased.

As a result of negotiations with the Alcoa Company, the Government also secured a greater share in the profits from bauxite exploitation.

Further contracts were signed with various foreign firms for oil and natural gas exploration and exploitation in different areas of the country, but no concrete results have yet been achieved.

(iii) Manufacturing. Since 1975 manufacturing output has recorded relatively low increases of 3 to 4% a year, which are in contrast with those of the order of 12% achieved at the beginning of the decade; some slowing down in this sector began to occur as early as 1974.

In examining the evolution of industrial output, special attention should be paid to the sugar industry, which differs from other industries both in its size and its behaviour. Although since the beginning of the decade the contribution of the sugar industry to the manufacturing product has fallen from a high of 27% in 1970, it continues to be significant at about 20%.

The average price of sugar exports dropped from 590 dollars a ton in 1975 to 262 dollars in 1976 and 199 dollars in 1977. Nevertheless, production rose by 10% in 1976 and 12% in 1977, when it reached 1,415,000 tons, the highest level ever attained. These figures indicate that in both 1976 and 1977 growth in the product of industrial activities other than sugar must have been below 2% a year.

/Thus, according

Thus, according to the indicators of manufacturing output given in table 6 (which do not necessarily coincide with the changes in the manufacturing product) production apart from sugar increased by 7% in 1975, fell slightly in 1976 and appears to have risen by just over 1% in 1977. The performance in 1975 was influenced principally by the food, tobacco, oil refining, basic metals and machinery and equipment industries. The poor results of the past two years were generally shared by all areas of manufacturing, with a few exceptions in 1977 (see table 6).

The inadequate supply of electricity, which has worsened in recent years, and - more important - the frequent power cuts which bring manufacturing to a halt, have been an important cause of the slow expansion of manufacturing output. In 1975 and 1976 616 generators with a total capacity of 88,000 KW were installed in industrial and commercial establishments in order to prevent power cuts. The problem was much alleviated in 1977 by this step, and by the measures taken by the Dominican Electricity Corporation, which by mid-1977 had secured a 25% rise in supplies to industry.<sup>1/</sup>

Other causes of the slackening in industrial growth were the scant increase in demand and the fact that the easier import substitution projects, on which industrialization has been based, have now been completed.

The industrial policy and the tax exemptions and other incentives provided for in law N° 299 of 1968, have remained unchanged, and the period of their application has recently been extended.

Under the law on industrial protection and incentives, about 160 new enterprises were set up between 1973 and 1976, creating some 15,000 new jobs.

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<sup>1/</sup> Installed electrical capacity increased by 25% in 1976 (solely through an increase in thermal plants), and by barely over 3% in 1977. The amount of electricity generated, on the other hand, expanded by 6% in 1976 and 25% in 1977. Production of hydroelectricity in 1977 suffered a decline of 28% as a result of the drought.

Table 6  
DOMINICAN REPUBLIC: INDICES OF MANUFACTURING PRODUCTION

	Breakdown in 1976 <sup>a/</sup> (percentage)	Index 1970 = 100				Growth rates		
		1974	1975	1976	1977 <sup>b/</sup>	1975	1976	1977
Index of manufacturing production <sup>c/</sup>	100.0	154.5	160.7	162.5	167.7	4.0	1.1	3.2
Index of manufacturing production excluding sugar	55.4	166.4	178.4	176.7	178.8	7.2	-1.0	1.2
Sugar production and refining	46.6	123.4	114.2	125.2	139.6	-7.5	9.6	11.5
Food products	12.2	145.6	157.1	151.8	153.0	7.9	-3.4	0.8
Beverages	10.7	144.4	147.7	149.6	157.0	2.3	1.3	4.9
Tobacco	5.3	129.7	141.4	142.8	135.7	9.0	1.0	-5.0
Textiles	1.8	152.2	158.1	160.0	...	3.9	1.2	...
Clothing	1.5	207.4	213.2	215.2	...	2.8	0.9	...
Chemical products	4.9	157.5	166.9	168.8	...	6.0	1.1	...
Oil refining	1.9	116.0	139.3	140.7	...	20.1	1.0	...
Rubber and plastics products	1.7	196.5	199.0	201.9	...	1.3	1.5	...
Non-metallic mineral products	4.2	241.6	218.5	221.2	238.0	-9.6	1.2	7.6
Basic metal industries	1.8	129.5	157.3	160.1	...	21.5	1.8	...
Metal products, machinery and equipment	2.6	244.2	301.9	304.6	320.0	23.6	0.9	5.1
Others	4.8	174.7	149.7	150.9	...	-14.3	0.8	...

Source: Central Bank of the Dominican Republic, Cuentas Nacionales (1970-1976).

<sup>a/</sup> Calculated on the basis of aggregate value at current market prices. At constant prices the share of revenue from sugar falls to about 21 per cent.

<sup>b/</sup> Estimate based on partial information obtained directly from official sources.

<sup>c/</sup> Changes in the index do not necessarily coincide with changes in the product of manufacturing industry, as a result of the different methodologies used in the calculations.

In 1976 there were 44 enterprises in the three free zones (La Romana, Santiago de los Caballeros and San Pedro de Macoris) producing goods solely for export and employing some 6,000 staff. These companies, which are exempt from all taxes, produce a wide variety of articles and use a high proportion of imported raw materials and components.

In addition to sugar and other agricultural and mining products which have undergone only a small amount of processing, manufactured products worth 33 million pesos were exported in 1977, including 17 million pesos' worth of furfural, a chemical product obtained from the distillation of bagasse. In 1977, however, the volume of furfural exported was 18% lower than the year before, while exports of the remaining manufactured products were just under 3% lower.

(iv) Construction. Construction activity is very sensitive to changes in investment, especially public investment, which to a large extent is channelled towards public works in the spheres of economic infrastructure, urban development, tourism and housing.

The drop in investment in 1976 (12% in public investment and 3% in private) had immediate repercussions on construction, and the 17% annual growth rate which had been recorded between 1971 and 1975 fell to a little over 2% in 1976. In the same year there was a sharp reduction in investment for the construction of irrigation dams (the Valdesia dam was completed) and hydroelectric installations (see table 13).

The higher revenues from exports in 1977, together with the slight growth in public income and expenditure and the expansion of credit, improved the liquidity of the economy, and as a result there was a revival in construction activity, which increased by 10% in 1977. Priority was given in that year to works for tourism development, in particular the Puerto Plata project on the north coast and the Samaná project. It is also estimated that hotel capacity rose by 11% in 1977.

A tourist complex in Bayahibe, to be built by Gulf and Western, is still in the planning stage. The Club Méditerranée is considering another project of the same type at Punta Cana, and the Government is hoping to develop a third at Boca Chica.

Construction of new dams by the National Institute of Water Resources is under consideration, as is the building of a four-lane highway between Santo Domingo and Santiago.



### 3. The external sector

#### (a) External trade

The trend of external trade in 1977 took the form of a 9% rise in the value of exports of goods, attributable to excellent sales of coffee and cocoa, and to a smaller extent bauxite, and an 11% increase in imports.

The principal feature of external trade in recent years has been the near-doubling of the value of exports in 1974 and 1975, followed by a fall of 20% in 1976, both movements being caused solely by changes in sugar prices. However, even in 1976 the fall in the price of sugar was partially offset by rises in the prices of coffee and cocoa. In 1976 these rises prevented a larger decline in total exports, while in 1977 they contributed to an increase of 9%. Exports of goods in 1977 totalled 780 million dollars, compared with the figure of about 900 million dollars attained in 1975.

The decisive influence of prices on the value of exports since 1974 can be seen from table 7. The volume of exports was almost identical in 1973 and 1977, although the figure fluctuated markedly in the intervening years.

The volume of imports increased considerably in 1973 and 1974, reflecting the higher prices paid for fuels. The increase was smaller in 1975, and there was actually a slight fall in 1976, as a result of the introduction of restrictions, lower food imports and a reduction in expenditure on investment. In 1977, however, imports rose more than exports.

The sharp increases in prices of imports between 1973 and 1975 have levelled off in the past two years. The evolution of the terms of trade was broadly in line with the price of sugar up to 1976 and with the prices of coffee and cocoa in 1977. However, in 1977 the terms of trade index was 30% below the 1975 level and the purchasing power of exports 22% lower (see table 7).

(i) Exports of goods. A rise totalling 130 million dollars in exports of coffee and cocoa made up for the further fall in sales of sugar and contributed to an increase of 9% in total export revenue in 1977, contrasting with the marked decline in 1976 (see table 8).

/Table 7

Table 7  
DOMINICAN REPUBLIC: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<u>Growth rates</u>						
Exports of goods						
Value	43.5	27.2	44.0	40.4	-19.8	8.9
Volume	30.5	11.4	-0.6	-11.4	13.8	-1.1
Unit value	9.9	14.2	44.8	58.5	-29.6	10.2
Imports of goods						
Value	8.9	24.9	59.5	14.8	-1.2	11.0
Volume	3.9	5.6	24.7	1.6	-5.9	4.7
Unit value	4.8	18.4	27.9	13.0	5.0	6.0
Terms of trade	4.8	-3.6	13.3	40.3	-32.9	4.0
<u>Indexes (1970 = 100)</u>						
Terms of trade	97.5	94.0	106.5	149.4	100.2	104.2
Purchasing power of exports of goods	149.2	160.5	180.6	224.4	171.2	176.1
Purchasing power of exports of goods and services	146.2	159.1	179.8	219.7	172.5	177.1

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

Table 8  
DOMINICAN REPUBLIC: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977	1974	1977	1975	1976	1977
<u>Main export products a/</u>	<u>592</u>	<u>847</u>	<u>662</u>	<u>727</u>	<u>92.9</u>	<u>93.2</u>	<u>43.1</u>	<u>-21.8</u>	<u>9.8</u>
Sugar	340	577	269	232	53.4	29.7	69.7	-53.4	-13.7
Coffee	46	43	101	185	7.2	23.7	-6.5	134.9	83.2
Cocoa	48	29	50	96	7.5	12.3	-39.6	72.4	92.0
Tabacco	39	35	39	29	6.1	3.7	-10.3	11.4	-25.6
Bauxite	18	17	16	22	2.8	2.8	-5.6	-5.9	37.5
Ferro-nickel	93	102	111	91	14.6	11.7	9.7	8.8	-18.0
Gold and silver	-	27	55	55	-	7.1	-	103.7	-
Furfural	8	17	21	17	1.3	2.2	112.5	23.5	-19.0
<u>Other products</u>	<u>45</u>	<u>47</u>	<u>54</u>	<u>53</u>	<u>7.1</u>	<u>6.8</u>	<u>4.4</u>	<u>14.9</u>	<u>-1.8</u>
<u>Total</u>	<u>637</u>	<u>894</u>	<u>716</u>	<u>780</u>	<u>100.0</u>	<u>100.0</u>	<u>40.4</u>	<u>-19.9</u>	<u>8.9</u>

Source: Central Bank of the Dominican Republic.

a/ Sugar exports include exports of molasses and syrups; coffee exports also include exports of roast and ground coffee; cocoa exports include exports of cocoa products.

/Total revenue

Total revenue from exports continued to depend fundamentally on the vagaries of prices of sugar, coffee and, to a lesser degree, two or three other products.

Between 1975 and 1976 the average price of sugar exports fell from 27 to 12 US cents a pound, representing a loss of 340 million dollars. In contrast, coffee prices rose by 72% and cocoa prices 61% in 1976, while exports of gold and silver, which had only just begun, doubled in value. Nevertheless, the total value of exports of goods declined by 20% in 1976.

The price of sugar continued its decline in 1977, with the average price per pound falling to 9 US cents. However, the average price of coffee rose sharply from 2.38 dollars to 4.01 dollars per kilogramme, while the price of cocoa doubled. As a result the value of exports of these products almost doubled, raising the value of total exports as mentioned above. The other important export products generally performed poorly, except for bauxite, where a recovery in volume led to an increase of 38% in value.

The recent evolution of exports can largely be attributed to price changes, but volume also played a significant role. Thus, the lower export volumes in 1974 and 1975 meant that full benefit was not drawn from the excellent prices in those years, while the rise in volume in 1976 made it possible to lessen the effects of the drop in sugar prices. In 1977 the volume of sales abroad fell back again, though only slightly. However, volumes of exports of coffee and cocoa - the two products whose prices showed the biggest increases - rose by 10% and 4% respectively (see table 7).

In 1977 exports of coffee reached the record level of 40,000 tons, but there were clear falls in the volume of ferro-nickel and bauxite exported. Only 61,000 tons of ferro-nickel were exported (24% of the volume sold between 1973 and 1974), while the volume of bauxite exported reached only half the 1,474,000 tons exported in 1975. There was also a drop in 1977 in the volume of tobacco exported. In contrast, the rise in exports of doré (gold and silver alloy) was appreciable for such a new export product. Sugar exports have remained around the 1 million ton mark since the beginning of the decade.

/As far

As far as the structure of exports is concerned, sugar declined substantially in importance, but that was compensated for by rises for coffee and cocoa. The total for the remaining exports remained between 25 and 30%. There were a few changes, however: ferro-nickel and tobacco declined in 1977, while gold, silver and furfural took a larger share (see table 8).

Non-traditional exports, which are not of great importance, have shown no change. Indeed, there has been a slight drop recently in exports of manufactures.

In October 1977 the sugar-exporting countries concluded a new agreement to replace the 1973 agreement. The new agreement lays down maximum export quotas for each country - 1,100,000 tons for the Dominican Republic - in order to prevent increases in supply and further falls in prices.

(ii) Imports of goods. Imports resumed their upward trend in 1977 after an interruption in 1976.

Between 1972 and 1975 imports more than doubled in value, rising from 338 million dollars to 773 million dollars. This rapid expansion was due to three factors: the almost fourfold rise in prices of fuels, the share of which in total imports increased from 11 to 22%; rapid growth in food imports, as a result of inadequate increases in domestic production, aggravated by drought; and the inertia in the import of a wide range of non-essential consumer articles and inputs for domestic industry. Since the middle of the 1960s the share of imports among the raw materials used by manufacturing industry has been rising continuously.

In 1976 there was a slight drop in the value of imports, while the volume fell by 6%. The reasons for the drop in value included smaller purchases of food, restrictions imposed with a view to containing the rapid growth of imports, and less demand for imported inputs by domestic industry, reflecting its low level of activity. In 1977 additions were made to the list of articles which it is forbidden to import with foreign currency obtained from the Central Bank.

/In 1977

In 1977 the growth of imports revived, though the rate of 11% was significantly lower than in the period 1973-1975. Five per cent of the increase was attributable to rises in volume and the remaining 6% to prices (see table 7).

Imports of food totalled 140 million dollars in 1977, 30% more than in 1976. There was an appreciable increase in imports of cars (18%), and much smaller rises for raw materials (9%), capital goods (6%) and fuels (5%) (see table 9).

(iii) Tourism. Since the start of the present decade tourism has acquired great momentum, with resolute and direct support from the Government. The Tourism Promotion Act of 1971 and the tax and import concessions granted for investment in the construction and fitting-out of hotels led to a rapid rise in hotel capacity and other tourist facilities. Mention should also be made of the large hotels and tourist complexes whose construction has been undertaken or financed by the State.

Hotel capacity rose from 2,200 rooms in 1975 to 3,580 in 1976 and 3,960 in 1977. Sixty-two per cent of these rooms are in Santo Domingo, which in 1977 had nine major hotels each with an average of 200 rooms. There are other large hotels in La Romana and Samaná.

Between 1973 and 1977 the number of visitors rose from 227,000 to 387,000, despite a fall in 1975. In 1977 the increase was just over 7%.

Of the 387,000 visitors in 1977, 240,000 were foreigners who stayed on average 7 or 8 days in the country. A further 110,000 arrived in cruise ships for a visit of no more than 24 hours, while the remaining 37,000 were Dominican visitors resident abroad. Numbers in this last group have declined since 1974.

It is estimated that the country received 67 million dollars from tourism in 1977, equivalent to 9% of the revenue from exports of goods. Tourist income rose substantially in 1974 and 1975 (by 42 and 13%, respectively), but the increases were below 7% in 1976 and only 3% in 1977. Furthermore, foreign currency spent by the country on travel continued to exceed revenue: the 1977 figure for this item was 83 million dollars.

Table 9  
DOMINICAN REPUBLIC: PRINCIPAL IMPORTS (FOB)  
(Millions of pesos)

	1976	1977	Percentage of total	Percentage change <sup>a/</sup>
Fish, crustacea and molluscs	8.3	9.8	1.2	18.7
Dairy products, eggs and honey	6.1	6.1	0.7	0.2
Cereals	37.1	48.3	5.7	30.0
Products of the milling industry	11.2	8.0	0.9	-28.4
Oil-seeds and similar	4.5	11.5	1.4	152.1
Oils and fats	18.1	29.1	3.4	61.3
Mineral fuels	169.5	177.0	20.9	4.5
Chemical products	14.6	15.4	1.8	5.5
Pharmaceutical products	27.7	26.1	3.1	-5.8
Fertilizers	14.3	15.7	1.9	9.8
Plastics, resins and products thereof	20.4	24.2	2.8	17.8
Natural or synthetic rubber	12.7	15.5	1.8	22.0
Wood and wood products	16.8	16.3	1.9	2.9
Paper and cardboard and products thereof	24.1	23.6	2.8	2.4
Synthetic textiles	11.1	11.7	1.4	5.2
Cotton	8.1	6.0	0.7	-25.4
Ceramic products, glass and glass manufactures	11.3	12.4	1.5	9.2
Cast iron and steel	47.7	48.2	5.7	0.9
Machinery and mechanical articles	85.5	95.6	11.3	11.8
Electrical machinery, articles and equipment	37.1	35.0	4.1	-5.7
Vehicles, automobiles, tractors, etc.	63.1	74.5	8.8	18.1
Other imports	113.9	137.6	16.2	20.8
<u>Total</u>	<u>763.4</u>	<u>847.6</u>	<u>100.0</u>	<u>11.0</u>

Source: Figures obtained directly from the National Statistical Office.

a/ Changes calculated on the basis of unrounded figures.

(b) The balance of payments

Divergent growth rates in 1977 for imports and exports led to an increase in the deficit on goods trade to 67 million dollars. If services are added, the trade deficit totals 200 million dollars, which is substantially higher than in the past (see table 10).

In 1977 there was also an increase of 23% in remittances abroad of profits on foreign capital and a rise of 54% in payments of interest on foreign debt. Net income from private transfers rose to a lesser extent.

These changes produced a large current account deficit of slightly more than 280 million dollars, the highest yet recorded.

While the current account deficit has expanded however, there has been a growing inflow of non-compensatory capital, which during the present decade has permitted continuous growth in international reserves, except in 1976.

In 1977 the net inflow of non-compensatory capital totalled about 340 million dollars (130 million dollars more than in 1976). There has been a considerable rise since 1974, principally in the form of medium-term and long-term loans, which in 1976 led to a tripling in the inflow from direct investment.

As a result of these changes in the current and capital accounts, net international reserves rose by 58 million dollars.

(c) External debt

By the end of 1976 the disbursed external debt amounted to 808 million dollars, of which 550 million dollars had been incurred by the public sector. Between 1973 and 1976 the total external debt increased by 60%, i.e., faster than the public debt.

It is estimated that in 1977 the external debt reached some 915 million dollars as a result of the appreciable inflow of capital during the year. Worthy of mention among the credit allocated since the end of 1976 was 60 million dollars for the Central Bank from the Venezuelan Investment Fund for purchases of petroleum, and 48 million dollars for the Dominican Electricity Corporation for purchases of equipment.



Table 10  
DOMINICAN REPUBLIC: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
<b>Current account</b>						
Exports of goods and services	411	513	730	1 003	831	904
Goods FOB	348	442	637	894	716	781
Services	63	71	93	109	115	123
Transport	12	14	15	16	15	19
Travel	33	38	54	61	65	67
Imports of goods and services	442	565	917	1 007	999	1 105
Goods FOB	338	422	673	773	764	848
Services	104	143	244	234	235	257
Transport	55	71	142	125	124	135
Travel	38	52	76	78	80	83
Net payments of profits and interest on foreign capital	-47	-77	-90	-93	-88	-123
Profits	-35	-54	-47	-49	-40	-49
Interest	-12	-23	-43	-44	-48	-74
Net private transfer payments	29	29	33	33	35	41
Balance on current account	-49	-100	-244	-64	-221	-283
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	49	100	244	64	221	283
(a) Net external non-compensatory capital	126	76	241	117	252	341
Direct investment	68	35	54	51	69	
Long- and medium-term loans	60	40	103	119	206	
Amortization payments	-16	-19	-45	-36	-77	
Short-term liabilities	12	18	128	-20	45	
Official transfer payments	2	2	1	3	9	341
(b) Domestic non-compensatory capital or assets	21	37	48	22	-4	
(c) Errors and omissions	-84	8	-35	-47	-38	
(d) Allocation of SDRs	5	-	-	-	-	
(e) Net compensatory financing	-19	-21	-10	-28	11	
(minus sign signifies an increase)						-58
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	15	-	13	25	...
Amortization payments	-16	-13	-6	-13	-	...
Variation in gross international reserves (minus sign signifies an increase)	-3	-23	-4	-28	-14	-57
Foreign exchange reserves (minus sign signifies an increase)	5	-10	-16	-29	-14	-57
Gold reserves (minus sign signifies an increase)	-	-13	13	-	-1	-1
SDRs (minus sign signifies an increase)	-8	-	-1	1	1	1

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;  
1977: CEPAL, on the basis of data from the Central Bank of the Dominican Republic.

#### 4. The evolution of domestic prices

In 1977 there was a clear resurgence of domestic price rises, though not at the rates experienced in the three years 1973-1975.

If the changes are measured from December to December, the increase of 8.5% does not appear much higher than the rise in 1976, when the inflation rate of the previous two years was halved. However, the variation between annual averages was rather higher - 12.8% - and much higher than the change of 7.9% in 1976. It was in fact fairly close to the rates recorded in the middle of the anti-inflation period 2/ (see table 11).

In the past two years the wholesale price index has moved along the same lines as the consumer price index, although with greater contrasts. Following a period of increases of 20% or more (1974 and 1975), the index fell by 4.7% in 1976 but rose again by 13.6% in 1977.

Among the causes of the inflationary process in the three years 1973-1975, external factors predominated - in particular the higher prices of imported products, which worked through to internal costs and thence to wholesale and consumer prices. In the past two years, on the other hand, prices of imports have risen much less, and domestic prices have tended to change in line with the domestic availability of basic consumer goods and with the money supply.

In contrast to what happened in the period 1973-1975, food prices (measured between annual averages) fell in 1976, while in 1977 they rose less than other consumer products. Their behaviour is closely linked with the availability of food products on the domestic market. Thus, in 1976 the domestic availability (apparent consumption) of 22 food products increased by 4.1%, and the average price to the consumer fell by 1.3% - less, that is, than the index of food products. In 1977, in contrast, the domestic supply of food products dropped by 3.3%, and the result was a rise of 6.3% in prices.<sup>3/</sup>

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2/ The difference arising from the two methods of calculation in 1977 is due to the sharp rise in the price index in December 1976.

3/ Indices calculated by CEPAL on the basis of information supplied by the Subsecretaría Técnica de Planificación Agropecuaria (SEAPLAN).

Table 11  
DOMINICAN REPUBLIC: CHANGES IN DOMESTIC PRICES

(Growth rates)

	1972	1973	1974	1975	1976	1977
<u>Variation from December to December</u>						
Consumer prices <u>a/</u>	8.0	17.2	10.5	16.5	7.0	8.5
Food	7.2	30.0	11.8	16.0	-6.1	5.7
<u>Variation between annual averages</u>						
Consumer prices <u>a/</u>	7.9	15.1	13.2	14.5	7.9	12.8
Food	6.0	18.4	17.7	17.7	-2.8	9.4
Wholesale prices	3.1	13.6	21.0	24.7	-4.7	13.6
Index of 22 food products from the agricultural sector						
Domestic supply (volume)					4.1	-3.3
Prices					-1.3	6.3

Source: Central Bank of the Dominican Republic, Boletín Mensual, various issues, plus information obtained directly;  
United Nations, Monthly Bulletin of Statistics, various issues.

a/ Corresponding to the general consumer price index in Santo Domingo.

## 5. Fiscal and monetary trends

### (a) Fiscal trends

Levels of revenue, and consequently of government expenditure, have in recent years been closely linked to revenue from sugar.

The exceptionally high revenue produced by the high price of sugar in 1974 and 1975 was the main cause of the 82% increase in current government income in those two years. Two-thirds of the rise of 290 million pesos in current income in that period was provided by the sugar industry through taxes on exports, domestic sales, company profits or simply through transfers to the Government from the State Sugar Council.

In addition, the surpluses produced by the sugar boom were used in 1975 to set up the Budget Reserve, which accumulated 60 million pesos in its first year and 15 million more in 1976.

The sharp fall in sugar prices and the drop in revenue from sugar exports in 1976 led to a reduction of almost three quarters in revenue from export taxes and a decline of 11% in government income (see table 12).

In 1977 current government income increased by 10% as a result of improved exports of coffee and cocoa, which made up for the drop in sugar exports. In addition, a progressive tax on exports of coffee and cocoa had been introduced in August 1975, and this enabled the Government to secure a larger proportion of the revenue from sales.

Between 1975 and 1977 taxes on external trade provided half of all tax revenue, taxes on domestic transactions involving goods and services 20%, and taxes on income and wealth the remaining 30%.

During the period 1973-1977 current expenditure increased by an average of 12.6% a year, despite a sharp drop in 1976. Expenditure on wages and salaries rose by 9% a year, i.e., less than domestic prices, which went up by 12% a year.

In contrast to what happened to current expenditure, capital expenditure has undergone considerable fluctuations in the past three years, so that by 1977 it was 16% lower than in 1975.

/Table 12

Table 12  
DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates		
	1974	1975	1976	1977	1975	1976	1977
<b>Total income</b>	<b>521</b>	<b>657</b>	<b>584</b>	<b>629</b>	<b>26.1</b>	<b>-11.0</b>	<b>7.7</b>
Current income	462	636	564	620	37.7	-11.3	9.9
Tax revenue	435	591	538	589	35.9	-9.0	9.5
Direct	112	142	140	126	26.8	-1.4	-10.0
Goods and services	70	95	119	141	35.7	25.3	18.5
From taxes on external trade	230	332	255	296	44.3	-23.2	16.1
Others	23	22	24	26	-4.3	9.1	8.3
Non-tax revenue	27	45	26	31	66.7	-42.2	19.2
Extraordinary income	59	21	20	9	-64.4	-4.8	-55.0
<b>Total expenditure</b>	<b>513</b>	<b>653</b>	<b>569</b>	<b>619</b>	<b>27.3</b>	<b>-12.9</b>	<b>8.8</b>
Current expenditure	301	353	326	367	17.3	-7.6	12.6
Capital expenditure	212	300	243	252	41.5	-19.0	3.7
Real investment	183	249	163	175	36.1	-34.5	7.4
Amortization of the debt	9	8	14	16	-11.1	75.0	14.3
Transfers	20	43	66	61	115.0	53.5	-7.6
Fiscal surplus	8	4	15	10			

Sources: Central Bank of the Dominican Republic, Boletín Mensual, and information obtained directly.  
Academy of Sciences of the Dominican Republic, Economía Dominicana 1976.

About 55% of public investment in fixed capital is effected by the Government, the remainder by autonomous bodies and public enterprises. The public sector is responsible for about 40% of total gross fixed investment.

Table 13 indicates the aims of investment by the central Government in recent years, the size of the allocations for construction of infrastructure and of housing and other buildings being noteworthy.

Each year the Government transfers part of its resources to autonomous institutions, which invest in specific sectors. In the past three years there has been a marked increase in these transfers of capital.

The Government's capital expenditure has principally been financed in recent years from its own current and extraordinary resources derived from transfers from State enterprises and autonomous bodies, and from domestic credit. Since 1974 much less use has been made of foreign credit. However, the same cannot be said of the decentralized public institutions, as may be seen from the rapid rise in the external public debt.

(b) Monetary trends

In 1977 there was substantial growth - of the order of 18% - in the money supply, which contrasted with a very small increase of less than 1% in 1976 (see table 14).

Because the growth of the means of payment was beginning to spiral - it reached 38% in 1974 - and because of its influence in raising domestic prices, a restrictive monetary policy was introduced in mid-1975 and controls were imposed on the money supply in keeping with the essential needs of the economy. The results of these steps were felt in the same year: the rise in the money supply dropped to 6% in 1975 and 1% in 1976, and in the latter year it was already possible to observe the effect of lower liquidity, combined with greater availability of goods, in the form of the slow-down in domestic price rises.

There was a return to substantial expansion in the means of payment in 1977 as a result of a rise in the international reserves (after a decline in 1976) and an increase in domestic credit, principally that granted to public institutions.

/Table 13

Table 13

DOMINICAN REPUBLIC: MAIN ALLOCATIONS OF CAPITAL BY THE CENTRAL GOVERNMENT<sup>a/</sup>

(Millions of pesos)

	1971- 1973	1974	1975	1976	1977 <sup>b/</sup>
Agriculture	10.9	28.8	33.4	28.9	24.9
Irrigation facilities	12.5	47.8	71.8	21.0	...
Transport and communications	37.3	29.1	0.4	38.6	13.4
Housing	13.6	19.5	38.2	40.0	21.9
Town planning and building	25.2	32.1	32.6	24.5	18.0
Supply of drinking water	10.5	13.4	20.3	22.6	...
Energy	5.1	17.3	3.9	2.8	...
Education	8.5	12.1	8.7	13.4	5.3
Health	1.4	1.2	2.4	8.4	10.6
<u>Total</u>	<u>125.0</u>	<u>201.3</u>	<u>211.7</u>	<u>200.2</u>	...

Sources: Compiled from data in various publications.

a/ Including direct investment by the central government and certain allocations through autonomous bodies.

The totals are partial totals and consequently do not coincide with investment and capital transfers by the central government in the years concerned.

b/ Six months.

Table 14  
DOMINICAN REPUBLIC: MONETARY POSITION

	End-year balance (in millions of pesos)				Growth rates		
	1974	1975	1976	1977	1975	1976	1977
<b>1. Money</b>	<u>378</u>	<u>400</u>	<u>403</u>	<u>475</u>	<u>5.8</u>	<u>0.8</u>	<u>17.9</u>
Currency outside banks	141	158	172	203	12.1	8.9	18.0
Demand deposits	237	242	231	272	2.1	-4.5	17.8
<b>2. Factors of expansion</b>	<u>1 009</u>	<u>1 142</u>	<u>1 179</u>	<u>1 378</u>	<u>13.2</u>	<u>3.2</u>	<u>16.9</u>
Foreign assets (net)	9	32	-11	51	255.6	-	-
Domestic credit	1 000	1 110	1 190	1 327	11.0	7.2	11.5
Government (net)	258	242	215	234	-6.2	-11.2	8.8
Official entities	68	68	62	100	-	-8.8	61.3
Agricultural bank	93	115	124	142	23.7	7.8	14.5
Private sector	581	685	789	851	17.9	15.2	7.9
<b>3. Factors of absorption</b>	<u>631</u>	<u>742</u>	<u>776</u>	<u>903</u>	<u>17.6</u>	<u>4.6</u>	<u>16.4</u>
Quasi-money							
(savings and time deposits)	361	467	484	545	29.4	3.6	12.6
Other items (net)	270	275	292	358	1.9	6.2	22.6

Source: International Monetary Fund, International Financial Statistics, May 1978.



In 1975 and 1976 there was a notable reduction in credit granted to the central government and public institutions. The substantial sums granted each year to the Agricultural Bank, on the other hand, have continued to increase appreciably.

Credit to the private sector also continued to rise rapidly in 1975 and 1976 (by 18 and 15%), demonstrating that the monetary restrictions applied in those years did not affect the financing of productive activities very much. In 1977, in contrast, credit to the private sector increased by only 8% - much more slowly than in the previous two years.

Finally, one of the effects of the growth in the money supply and in credit in 1977 was a renewed rise in domestic prices, although the important influence of irregularities in domestic supply - especially of food products - should not be ignored in this connexion.

/SURINAME

## SURINAME

### 1. The overall picture

As from 1976, the gross domestic product (GDP), measured at current factor cost, is estimated to have risen by 12% over the 1975 level in nominal terms. This increase is attributable to the performance of the distribution, agricultural and government sectors.

Initial indications suggest that, in 1977, reductions in the output and earnings of the mining sector have had adverse effects on the growth of the GDP. This reduction in GDP growth acquired despite increases in the agricultural and government sectors.

External sector activity in 1976 was marked by an increased balance on merchandise trade, mainly due to lower imports and increased earnings from alumina exports, a lower deficit on balance-of-payments current account and a surplus on the capital account (see table 1). The overall impact of these factors was a surplus on the net balance of payments. The preliminary data for 1977, on the other hand, suggest that the net balance of payments was less favourable during that year, with an estimated deficit of Sf 33 million.<sup>1/</sup>

As regards internal activity it is notable that despite a rapid increase in the price index for the clothing and footwear group, there was a slight slowing down in the level of inflation in 1977.

Both a decline in the size of the labour force as a result of emigration, and an acute shortage of skilled and unskilled labour were still evident. In addition, the large disparity continued between the high wages in the mining sector compared with the general level of wages in other sectors.

Economic development policy has been increasingly geared to development of the national industrial productive machinery, with the main emphasis on geographical decentralization, creation of more employment opportunities, narrowing the disparity in wages, and establishment of further links with neighbouring Caribbean countries. The programme for stimulating geographical decentralization began with the identification of eight major rural areas. In Western Suriname, the largest of these areas, major activities include bauxite mining, bauxite processing industries and general agricultural projects.

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<sup>1/</sup> In 1977 the official exchange rate was Sf 1.79 = US\$ 1.0.

Table 1

SURINAME: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of guilders at current prices)	555	609	644	738	825	...
Population (thousands)	390	400	410	422	434	447
Per capita gross domestic product (guilders at current prices)	1 423	1 523	1 571	1 749	1 901	...
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product (at current prices)	3.2	9.7	5.7	14.6	11.8	...
Per capita gross domestic product (at current prices)	0.3	7.0	3.2	11.3	8.9	...
Current value of exports of goods and services	3.7	-1.7	53.2	3.0	-2.1	...
Current value of imports of goods and services	8.6	9.0	45.8	14.7	-5.1	...
Consumer price index						
Annual average variation	3.3	13.0	16.9	8.3	10.2	9.7
Money	5.0	28.9	5.2	20.5	17.5	6.4
Current income of government	7.1	-3.6	28.3	47.7	-4.2	9.9
Total expenditure of government	5.3	13.6	14.2	40.3	21.7	21.4
Fiscal deficit/total expenditure of government <sup>b/</sup>	16.7	29.3	20.6	16.1	34.0	40.3
<b>Millions of US dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	32.8	14.0	14.6	-23.8	15.6	...
Balance on current account	-16.9	-27.6	-23.3	-45.8	-34.8	...
Variation in net international reserves	9.9	18.5	6.8	23.7	18.6	...

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Percentage.

The construction of a number of infrastructure projects, including a railroad linking the area with the more populated parts of the country, is already under way. The railroad will be used for the transport of raw materials and finished products. The decentralization plan envisages the development of the areas into self-sufficient communities.

Decentralization forms part of a wider programme of development for exploitation of the country's natural resources besides bauxite, (which could include nickel, uranium, iron ore and some oil), the encouragement of investment in industry, and an increase in the production of food.

## 2. Sectoral trends

### (a) Agriculture

After mining, the agricultural sector has provided a larger percentage contribution to the GDP than any other productive sector (see table 2). Preliminary data for 1976 and 1977 indicate that there was an upward trend in the production of domestic crops as well as in the area under commercial agricultural production. Rice and bananas, the major crops produced in the country experienced very favourable production conditions throughout the year. The volume of paddy reaped in 1977 increased by 15% over 1976 levels (see table 3). This increase may be attributed mainly to the expansion of the area under rice cultivation. The area planted grew by 3% in 1977, and there are indications that the acreage will continue to increase considerably over the next few years with a number of banana estates being converted to rice cultivation (see table 4). In addition there are plans to boost rice output by making the industry more mechanized.

During 1977, the production of plantains increased by 6% while the area dedicated to its cultivation increased by 24%. The plantain crop, however, is far less important than bananas, the latter comprising over 96% of the combined plantain-banana output. The overall acreage dedicated to banana cultivation, however, fell by 5% in 1977 and the production was marginally below the 1976 output. These decreases resulted mainly from a shortage of labour and conversion of land to the more profitable cultivation of rice.

Table 2

SURINAME: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of guilders			Percentage breakdown		Growth rates	
	1973	1974	1975 <sup>a/</sup>	1970	1975	1974	1975
<u>Subtotal goods</u>	<u>316</u>	<u>302</u>	<u>323</u>	<u>52.8</u>	<u>43.8</u>	<u>-4.4</u>	<u>7.0</u>
Agriculture, animal husbandry, fisheries	51	62	72	7.7	9.8	21.6	16.1
Forestry, wood industry	11	11	12	2.8	1.6	0.0	9.1
Mining	198	182	179	33.1	24.3	-8.1	-1.6
Manufacturing	44	34	45	7.8	6.1	-22.7	32.4
Construction	12	13	15	1.4	2.0	8.3	15.4
<u>Subtotal basic services</u>	<u>36</u>	<u>36</u>	<u>50</u>	<u>5.0</u>	<u>6.8</u>	<u>0.0</u>	<u>38.9</u>
Gas, water, electricity	16	15	18	2.6	2.4	-6.3	20.0
Transport, communications	20	21	32	2.4	4.3	5.0	52.4
<u>Subtotal other services</u>	<u>218</u>	<u>291</u>	<u>347</u>	<u>36.8</u>	<u>47.0</u>	<u>33.5</u>	<u>19.2</u>
Commerce, hotels, financial institutions	101	123	154	17.6	20.9	21.8	25.2
Housing	...	32	34	...	4.6	...	6.3
Government	117	136	159	19.2	21.5	16.2	16.9
Others	39	15	18	5.4	2.4	-61.5	20.0
<u>Total</u>	<u>609</u>	<u>644</u>	<u>738</u>	<u>100.0</u>	<u>100.0</u>	<u>5.7</u>	<u>14.6</u>

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

Table 3

SURINAME: INDICATORS OF AGRICULTURAL PRODUCTION

Production	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Paddy rice <u>a/</u>	162.4	174.8	172.5	198.8	7.6	-1.3	15.2
Maize <u>b/</u>	193.0	365.0	132.0	...	89.1	-63.8	...
Peanuts <u>a/</u>	1.0	2.3	1.7	...	130.0	-26.1	...
Green vegetables <u>a/</u>	2.0	2.2	1.1	...	10.0	-50.0	...
Plantain <u>a/</u>	0.8	1.0	1.6	1.7	25.0	60.0	6.3
Bananas <u>a/</u>	39.6	43.1	41.4	41.0	8.8	-3.9	-1.0
Sugar cane <u>a/</u>	9.0	9.0	8.7	10.0	0.0	-3.3	14.9
Coconuts <u>a/</u>	6.0	5.5	5.5	5.5	-8.3	0.0	0.0
Cocoa <u>b/</u>	54.0	55.0	43.0	...	1.9	-21.8	...
Coffe <u>b/</u>	91.0	88.0	76.0	...	-3.3	-13.6	...
Palm oil <u>a/</u>	0.1	0.6	1.3	1.9	500.0	116.7	46.2

Source: CEPAL, on the basis of official data.

a/ Thousands of metric tons.

b/ Metric tons.

Table 4  
SURINAME: AREA UNDER CULTIVATION

	Hectares				Growth rates		
	1974	1975	1976	1977a/	1975	1976	1977a/
Paddy rice	44 353	47 500	48 400	49 700	7.1	1.9	2.7
Maize	120	146	94	...	21.7	-35.6	...
Peanuts	238	371	402	...	55.9	8.4	...
Peas	180	306	...	...	170.0	...	...
Green vegetables	310	302	326	...	-2.6	7.9	...
Plantain	139	124	201	250	-10.8	62.1	24.4
Bananas	1 910	1 950	1 965	1 870	2.1	0.8	-4.8
Sugar cane	2 304	2 286	1 950	1 750	-0.8	-14.7	-10.3
Oranges	1 319	1 479	1 450	1 480	12.1	-2.0	2.1
Coconuts	1 200	1 105	1 100	1 100	-7.9	-0.5	0.0
Cocoa	396	401	390	390	1.3	-2.7	0.0
Coffee	448	420	360	360	-6.3	-14.3	0.0
Oil palm	1 435	1 645	1 710	1 880	14.6	4.0	9.9
<u>Total</u>	<u>54 950</u>	<u>58 624</u>	...	...	<u>6.7</u>	...	...

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/The palm-oil

The palm-oil industry, which is highly mechanized and concentrated on large estates, has been growing since 1974, both in acreage and production. The output for 1977 represents an increase of 46% over 1976, and the area under cultivation has increased by 10%.

Indicators show that there has been a substantial decrease - 10% - in the area dedicated to sugar, one of the country's traditional crops. Since 1974, that area has shrunk by 24%. Despite this trend, there are plans to keep at least 5,000 hectares under sugar cultivation in order to meet the needs of local consumption and for export to the European Economic Community (EEC) countries. The output of sugar cane for 1977 grew by 15%. The serious shortage of unskilled labour has adversely affected the operations of all traditional crops including cocoa, coffee and sugar industries despite the importation of unskilled labour from Haiti, Guyana and other Caribbean countries. Unfortunately, no information is available on the production of cocoa and coffee.

In contrast, the preliminary data for domestic food crops show substantial increases in output, reflecting favourable production conditions, and increases of acreage under commercial production during the last few years.

In addition, there was a notable increase in livestock population during 1977 with poultry rising by 75%. Overall, these developments reflect the general thrust in the diversification of the agricultural sector toward improved production of domestic food crops and a movement away from dependency on the traditional export crops.

In 1977, the Government increased its capital and current expenditure on agriculture with the object of creating more jobs and providing better physical amenities in the rural agricultural areas. A further aspect of this policy has been the establishment of minimum wage levels, in the expectation that this would be an incentive to those engaged in agriculture.

#### (b) Mining

The mining sector is dominated by the extraction of bauxite and its processing into alumina and aluminium. There is also some mining of gold. The nominal growth rate of the sector was negative during both 1974 and 1975 (see table 2). As a result, the contribution of the sector to the GDP declined during both these years. The overall percentage contribution in 1975 was considerably below the 1970 figure.

/The falling



The falling contribution of the sector resulted from reductions in both the volume and world price of bauxite. Bauxite production has dropped by 50% since 1974 while the production of alumina has fallen by 25% (see table 5). Preliminary data for the first three-quarters of 1977 would seem to indicate a further decline for bauxite. There are signs, however, that the growth rate of the production of alumina and aluminium maintained the levels achieved in 1976.

Since the processing of bauxite into alumina and aluminium began in 1966 there has been a steady reduction in the annual level of bauxite exports. Approximately 51% of the total production of bauxite is now exported, the remainder being retained for processing. Up to 1976 less than 10% of the annual output of alumina, a product derived from bauxite, was retained for smelting into aluminium, and only 6% of the aluminium was retained for use in local industries. There are however, some indications of a trend towards the retention of larger proportions of alumina and aluminum for local use.

Mining, already the leading sector in the economy, is being further expanded by government action to accelerate development in Western Suriname, where there are large deposits of bauxite and other mineral ores. Additional infrastructure being provided include a second hydroelectric power plant, and a 200-mile railroad for linking the mining and smelting industries to Apoera from where the finished and semi-finished products would be exported.

(c) Forestry

Although Suriname has an abundant supply of high quality commercial timber, the production of timber and other forest products has so far played a minor role in the economy. In 1975, such products contributed only 2% of the GDP (see table 2). Nevertheless, over 80% of the country is under tropical rain forest. Available data suggest an increasing use of the commodity for fuelwood and charcoal. The production of sawnwood, sleepers and plywood also increased in 1976 (see table 6). The production of timber is conducted under joint-ventures between the Government and private companies.

Table 5  
SURINAME: INDICATORS OF MINING PRODUCTION

	Millions of metric tons				Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977
Bauxite	6.9	4.7	4.6	3.5	-31.9	-2.1	...
Alumina	1.2	1.1	1.2	0.9	-8.3	9.1	...
Aluminium <sup>b/</sup>	57.0	34.7	45.9	37.0	-39.1	32.3	...

Source: CEPAL, on the basis of official data.

<sup>a/</sup> January - September.

<sup>b/</sup> Thousands of metric tons.

Table 6

SURINAME: PRODUCTION OF SELECTED WOOD PRODUCTS

	M <sup>3</sup> roundwood equivalent			Growth rates		
	1974	1975	1976	1974	1975	1976
Sawnwood	48 536	77 295	...	...	59.3	...
Sleepers	1 480	2 881	5 384	...	94.7	86.9
Plywood	17 415	14 066	16 006	-9.0	-19.2	13.8
Particle board	14 251	23 306	14 822	-18.6	63.5	-36.4

Source: CEPAL, on the basis of official data.

(d) Manufacturing and construction

Available data on manufacturing for the first three-quarters of 1977 suggest higher production levels for most of the industries (see table 7). Cement has shown considerable improvement in the first three-quarters of 1977. Output of shoes rose more than 20%, and production of soap powder by 5%, while most other items showed marginal improvements. Similarly, there are signs too of higher production in the agro-industries during the period under review, with increases in the output of flour and cattle fodder.

As regards the construction sector, overall expansion has been hampered by low capacity in the cement and other related industries, and shortage of skilled and unskilled manpower. Demand has grown with the need for public and private housing and construction work on development projects.

(e) Energy

A relatively large proportion of the country's energy comes from hydroelectric sources, the main supplies for domestic, commercial and industrial use being electricity and gas.

Over the 1973 to 1976 period there was a decline in the supply of gas to urban areas (see table 8). In 1976 the gas supply fell by 55% compared with 1975. However, the preliminary figures for the first three-quarters of 1977 indicate a sharp increase in level.

The data in table 8 show that there are also substantial increases in the supply of electricity, by both the public and the private sector during 1977. The supply of public electricity rose considerably in the first three-quarters of 1977, to a level which is 114% more than the amount supplied in 1976. Private electricity supplies at the end of three-quarters of 1977 were 10% higher than the all-year supply for 1976.

Table 7

SURINAME: INDICATORS OF MANUFACTURING PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977
Shoes <sup>b/</sup>	233	292	...	285	26.3	...	21.3 <sup>c/</sup>
Carton boxes <sup>d/</sup>	2.6	2.2	2.8	2.7	-15.4	27.3	...
Matches <sup>d/</sup>	7.4	5.1	1.6	...	31.1	-68.6	...
Soap powder <sup>e/</sup>	805	895	738	1 006	11.2	-17.5	...
Methylated spirits <sup>f/</sup>	200	178	154	208 <sup>g/</sup>	-11.0	-13.5	...
Cement <sup>h/</sup>	33.8	34.7	51.0	30.4	2.7	47.0	...
Gold <sup>g/</sup> <sup>h/</sup>	...	4.8	1.2	...	...	-75.0	...

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Thousands of pairs.

<sup>c/</sup> January - June.

<sup>d/</sup> Millions.

<sup>e/</sup> Thousands of tons.

<sup>f/</sup> Thousands of litres.

<sup>g/</sup> January - September.

<sup>h/</sup> Thousands of kg.

Table 8

SURINAME: SUPPLY OF ENERGY

Item	Unit	1973	1975	1976	1977 <sup>a/</sup>		
					I	II	III
Gas (town)	1 000 m <sup>3</sup>	3 948	2 878	1 789	1 120	903	578
Electricity (private generators)	mls KWH	1 368	1 121	1 213	1 292	1 317	1 330
Electricity (public generators)	mls KWH	76	80	58	68	96	124

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

### 3. The external sector

Although the current account balance was again in deficit, the external sector was not a serious constraint on the economy owing to the favourable capital movement. The notable features in the balance-of-payments accounts for 1975 and 1976 were the continued surplus on the merchandise trade account, the substantial surplus on the capital account and the significant surplus on the total account for both periods.

#### (a) The current account

The general pattern in the last two years has been a reduction in the value of merchandise trade, both imports and exports, resulting in a moderate surplus balance. The absolute value of exports fell 2% in 1976, and the level of imports fell by about 5%. The increased surplus in 1976 was mainly the result of increased earnings of alumina and aluminium. These two products plus bauxite contribute about 79% of total exports earnings (see table 9). Other important exports include agricultural products, such as rice, shrimp, bananas, and wood and wood products. The export value of shrimp has increased by about 50% over the last four years.

Full data for 1976 and 1977 are not available but the summary reflects a fall in the level of imports in 1976, and indications are that this extended into 1977, with little significant change in composition (raw materials, consumer and investment goods, and fuels and lubricants).

Large outflows of investment income remain the major factor contributing to the substantial deficit on invisibles in the current account (see table 10). In addition, government transfers, normally on surplus, went into deficit by 1976, and further deficits were incurred in foreign travel, transport and insurance, and other private remittances.

#### (b) The capital account

The balance on the capital account continues to show a surplus, although the levels in 1976 and 1977 were lower than in 1975. The capital account surplus fell by 30% in 1976, a trend which continued into 1977. The main factor was that in 1975 there was a net inflow of private capital which changed to a net outflow in 1976.

Table 9  
SURINAME: EXPORTS OF GOODS

	Millions of dollars (FOB)			Percentage breakdown		Growth rates	
	1974	1975	1976	1970	1977a/	1975	1976
<u>Bauxite, mining and processing</u>	<u>203.9</u>	<u>189.4</u>	<u>212.9</u>	<u>86.9</u>	<u>79.0</u>	<u>-7.1</u>	<u>12.4</u>
Bauxite	71.1	49.5	47.2	25.7	17.5	-30.4	-4.6
Alumina	95.1	118.0	129.6	46.3	48.1	24.1	9.8
Aluminium	37.7	21.9	36.1	14.9	13.4	-41.9	64.8
<u>Agricultural products</u>	<u>21.7</u>	<u>31.3</u>	<u>28.6</u>	<u>4.1</u>	<u>10.6</u>	<u>44.2</u>	<u>-8.6</u>
Rice	11.9	18.3	15.0	2.7	5.6	53.7	-18.0
Bananas, plantains	2.6	3.4	3.6	1.4	1.3	30.8	5.9
Shrimp	7.2	9.6	10.0	-	3.7	33.3	4.2
<u>Wood and wood products</u>	<u>6.7</u>	<u>6.5</u>	<u>7.1</u>	<u>2.7</u>	<u>2.6</u>	<u>-3.0</u>	<u>9.2</u>
<u>Others</u>	<u>34.8</u>	<u>48.0</u>	<u>20.8</u>	<u>6.3</u>	<u>7.7</u>	<u>37.9</u>	<u>-56.7</u>
<u>Total</u>	<u>267.3</u>	<u>275.2</u>	<u>269.4</u>	<u>100.0</u>	<u>100.0</u>	<u>3.0</u>	<u>-2.1</u>

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.



Table 10  
SURINAME: BALANCE OF PAYMENTS  
(Millions of dollars)

	1972	1973	1974	1975	1976
<u>Current account</u>					
Merchandise trade	40.6	26.4	40.1	14.1	21.7
Transport and insurance	-0.5	-1.7	-4.9	-11.3	-0.8
Foreign travel	-7.3	-10.7	-20.6	-26.6	-5.3
Salaries and pensions	-1.9	-2.1	-2.6	-4.4	1.7
Other private remittances	-4.6	-4.9	-18.0	-10.9	-5.1
Government transfers	4.6	5.2	8.3	5.8	-10.8
Investment income	-47.2	-39.2	-24.6	-11.8	-35.4
Non-monetary gold	-0.7	-0.6	-0.8	-0.8	-0.8
Balance on current account	-16.9	-27.6	-23.3	-45.8	-34.8
<u>Capital account</u>					
Private capital	4.4	27.6	0.4	39.3	-31.1
Migration and private grants	-1.0	-0.8	-1.5	-1.9	-
Government grants	12.9	13.6	22.9	179.0	89.1
Government loans received	18.5	8.6	12.5	13.9	-
Repayment of government loans	-1.3	-3.1	-3.3	-151.4	-1.0
Other government capital	-6.6	-1.7	-1.0	1.6	-1.5
Balance on capital account	26.8	44.3	29.3	80.4	55.5
Balance on total account	9.9	16.7	6.1	34.6	20.7
<u>Balances items: Increase (+) decrease (-)</u>					
Monetary gold	-	-3.1	-	-	-
Net official foreign exchange	9.9	18.5	6.8	23.7	18.6
Foreign exchange held by commercial banks	-0.1	1.3	-0.7	10.9	2.1

Source: CEPAL, on the basis of official data.

/Government grants,

Government grants, which consist mainly of the Government of the Netherlands' bilateral aid to Suriname, have been the only credit in the capital account showing a consistent positive balance. Nevertheless that item fell by 50% in 1976 owing principally to disagreement with the Netherlands over the capital spending plans of the Government (see below).

The estimated deficit on the total account of the balance of payments for 1977 has been attributed to falling inflows of government grants and larger deficits on the current account due to lower export earnings. In previous years, 1974 and 1975, the surplus on the balance of payments was enhanced by the bauxite levy, but during 1976 and 1977 the revenues from this source fell considerably, when the levy was revised.

The apparently unfavourable turn in the balance of payments is also reflected in the decrease in official net foreign exchange. Provisional estimates for 1977 show a further estimated decrease of 21% in reserve holdings.

#### 4. Prices, labour supply and wages

The consumer price index in 1977 showed an increase of just under 10% which was slightly below the 10.2% rise experienced in 1976 (see table 11). The pattern and annual rate of change for most categories of items were not much different from the previous year.

Clothing and footwear prices rose 21% in 1977, while food and beverages as well as housing categories had more moderate increases.

An active policy of price controls on food items has been maintained by the Government, and accounts for the relative stability in food prices. The mechanism of setting maximum prices for a wide range of commodities is combined with assuring a regular supply of a number of commodities including rice. The Central Import Office of Suriname (CIS) ensures the supply of imported products at controlled prices.

Definitive employment data are unavailable but indicators reflect a continued decline in the level of the labour force. Estimates of the labour force for 1975 and 1976 show decreases of 1% and 8% for the two respective years, which reflect continued emigration, mainly to the Netherlands.

/Table 11

Table 11

SURINAME: EVOLUTION OF DOMESTIC PRICES

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
Consumer price index	3.3	13.0	16.9	8.3	10.2	9.7
Food, beverages	4.0	22.5	16.8	7.4	9.9	7.3
Housing	3.4	3.5	23.9	8.8	6.8	7.5
Clothing	0.4	10.9	12.5	12.9	18.0	21.0
Other	3.8	6.8	12.7	8.3	10.2	10.5

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

/Most marked

Most marked is the acute shortage of unskilled labour in the agricultural sector. In recent years, this need has been partially met by importation of labour from Haiti, Guyana and other small countries of the Caribbean, in order to harvest sugar cane and bananas. The fall in the labour supply in the agricultural sector is due not only to emigration, but also to out migration to urban areas, the expansion of the Government as a labour recruiting unit, and the more lucrative employment in the mining and manufacturing sectors.

The available qualitative information suggests that the lag in the rise of wages as against the rise in prices has narrowed somewhat, particularly for skilled categories of workers. Further, the level of wages in the bauxite industry which has traditionally been significantly higher than in all the other broad economic sectors, has continued to rise, thus increasing the gap between wages in the mining sector and in the other economic sectors. Wages in all other sectors are higher than those in agriculture, and this stimulated government policy on the establishment of minimum wage levels for agriculture.

## 5. Monetary and fiscal policy

### (a) Monetary policy

Selected statistics show a somewhat more moderate increase in the money supply during 1977 (6%) compared with the increase experienced in 1976 (see table 12). Money supply indicators show a steady decline since 1975. The 1977 reduction may be attributed more to a fall in net international reserves than to restraint in the creation of domestic credit. In fact, domestic credit rose by 50% in 1977, faster than in any other year of the 1970s. The major component of domestic credit went to the private sector, the government sector absorbing only 22% of such credit in 1977. Nevertheless it was the government sector which showed a huge increase (2,496%). This jump may be explained by the dispute between the Netherlands, and the Suriname Government. Disagreements over the possibility of the development of the Western Suriname bauxite fields resulted in limitations on the use of the Netherlands' aid contribution and may have forced the Government to turn to domestic financing sources.

/Table 12

Table 12

SURINAME: MONETARY POSITION

	Balance at end of				Growth rates		
	1974	1975	1976	1977a/	1975	1976	1977a/
1. <u>Money</u>	<u>140.0</u>	<u>168.7</u>	<u>198.3</u>	<u>211.0</u>	<u>20.5</u>	<u>17.5</u>	<u>6.4</u>
Currency outside banks	78.8	88.6	110.1	116.8	12.4	24.3	6.1
Demand deposits	59.8	77.7	87.5	92.0	29.9	12.6	5.1
2. <u>Factors of expansion</u>	<u>312.0</u>	<u>376.7</u>	<u>464.1</u>	<u>536.8</u>	<u>20.7</u>	<u>23.2</u>	<u>15.7</u>
Foreign assets (net)	143.6	205.2	242.2	203.9	42.9	18.0	-15.8
Domestic credit	168.4	171.5	221.9	332.9	1.8	29.4	50.0
Claims on government (net)	13.9	8.7	2.5	64.9	-37.4	-71.3	2 496.0
Claims on official entities	4.8	5.4	10.8	11.3	12.5	100.0	4.6
Claims on private sector	149.8	157.4	208.7	256.7	5.1	32.6	23.0
3. <u>Factors of absorption</u>	<u>171.9</u>	<u>208.1</u>	<u>265.8</u>	<u>305.8</u>	<u>21.1</u>	<u>27.7</u>	<u>15.0</u>
Quasi-money							
(savings and time deposits)	107.1	124.5	173.2	223.5	16.2	39.1	29.0
Long-term foreign borrowing	7.4	7.4	8.9	6.3	0.0	20.3	-29.2
Other items (net)	57.4	76.2	83.7	76.0	32.8	9.8	14.7

Source: International Monetary Fund, International Financial Statistics.

a/ Preliminary figures.

Loans and advances of commercial banks went up by 19% in 1977, with the major portion going to the service sector, mainly to commerce and services (including building loans) (see table 13). Although there was a 20% increase in the level of loans to the productive sectors for 1977, its percentage contribution to the total loans and advances showed only a nominal increase from 1976.

The manufacturing sector received about 10% of the total loans and advances. The only other productive sectors to receive any substantial loans were mining and agriculture; but it is significant that the level of loans to agriculture grew by about 52% over the 1976 level; while the manufacturing and mining sectors showed only nominal increases.

Commerce remains the most important single sector in the loans and advances portfolio of the commercial banks. In 1977 this sector received 31% of the total loans, while other services (including building loans), the second largest, received loans amounting to 24% of the total loans and advances.

The system of credit ceilings remained in effect with the level of credit being closely monitored by the Central Bank. The interest rates during 1977 have shown only moderate increases and the banks continued to remain relatively liquid.

(b) Fiscal policy

The officially estimated government revenue for 1977 increased by 10% over 1976 levels (see table 14). This was mainly due to increases in income taxes and import duties. It is estimated that there was an overall increase of 16% in the total tax revenues for 1977. There was a considerable decline in the revenue from the bauxite levy, with the reduction in exports of raw and processed bauxite. Also, the level of non-tax revenue fell by 18%. This is a reverse from 45% increase experienced in 1976. Most of capital expenditure was financed by development funds from the Netherland Government.

Table 13

SURINAME: LOANS AND ADVANCES OF COMMERCIAL BANKS

	Millions of guilders				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1972	1977	1975	1976	1977 <sup>a/</sup>
<u>Production sector</u>	<u>62.9</u>	<u>71.7</u>	<u>96.2</u>	<u>115.7</u>	<u>32.2</u>	<u>38.3</u>	<u>14.0</u>	<u>34.2</u>	<u>20.3</u>
Agriculture	10.0	11.0	19.9	30.3	5.3	10.0	10.0	80.9	52.3
Fishing	0.7	4.3	2.8	1.5	0.0	0.5	514.3	-34.9	-46.4
Forestry	0.1	0.1	0.6	0.7	0.1	0.2	0.0	500.0	16.7
Mining	11.5	9.6	28.9	28.3	8.3	9.4	-16.5	201.0	-2.1
Manufacturing	28.6	32.2	25.1	30.5	11.6	10.1	12.6	22.0	21.5
Construction	3.7	4.8	8.1	11.0	0.4	3.6	29.7	68.8	35.8
Electricity, gas	8.3	9.7	10.8	13.4	6.5	4.4	16.9	11.3	24.1
<u>Other</u>	<u>101.3</u>	<u>100.1</u>	<u>156.9</u>	<u>186.3</u>	<u>67.8</u>	<u>61.7</u>	<u>-1.2</u>	<u>56.7</u>	<u>18.7</u>
Commerce	52.9	54.9	73.3	94.7	47.0	31.4	3.8	33.5	29.2
Transport	2.5	2.8	5.4	7.5	0.7	2.5	12.0	92.9	38.9
Services	5.0	5.4	8.6	10.0	2.3	3.3	8.0	59.3	16.3
Others	40.9	37.0	69.6	74.1	17.8	24.5	-9.5	88.1	6.5
<u>Total</u>	<u>164.2</u>	<u>171.8</u>	<u>253.1</u>	<u>302.0</u>	<u>100.0</u>	<u>100.0</u>	<u>4.6</u>	<u>47.3</u>	<u>19.3</u>

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

Table 14  
SURINAME: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
1. <u>Current income</u>	<u>204.1</u>	<u>301.5</u>	<u>288.9</u>	<u>317.4</u>	<u>47.7</u>	<u>-4.2</u>	<u>9.9</u>
Tax revenue	166.9	268.4	241.0	278.4	60.8	-10.2	15.5
2. <u>Current expenditure</u>	<u>198.7</u>	<u>249.8</u>	<u>285.3</u>	<u>363.4</u>	<u>25.7</u>	<u>14.2</u>	<u>27.4</u>
Wages and salaries	113.3	142.4	154.0	218.0	25.7	8.1	45.6
Transfers	36.9	41.4	43.0	27.0	12.2	3.9	-37.2
3. <u>Saving on current account (1-2)</u>	<u>5.4</u>	<u>51.7</u>	<u>3.6</u>	<u>-46.0</u>	<u>857.4</u>	<u>-93.0</u>	<u>-1 377.8</u>
4. <u>Capital expenditure</u>	<u>57.6</u>	<u>109.9</u>	<u>152.5</u>	<u>168.0</u>	<u>90.8</u>	<u>38.8</u>	<u>10.2</u>
Investment	49.7	86.2	119.0	135.0	73.4	38.1	13.4
5. <u>Total expenditure (2+4)</u>	<u>256.3</u>	<u>359.7</u>	<u>437.8</u>	<u>531.4</u>	<u>40.3</u>	<u>21.7</u>	<u>21.4</u>
6. <u>Fiscal deficit (or surplus) (1-5)</u>	<u>-52.2</u>	<u>-58.2</u>	<u>-148.9</u>	<u>-214.0</u>	<u>-11.5</u>	<u>-155.8</u>	<u>-43.7</u>
7. <u>Financing of deficit</u>	<u>241.2</u>	<u>44.0</u>	<u>38.2</u>	<u>35.4</u>	<u>-81.8</u>	<u>-13.2</u>	<u>-7.3</u>
External debt	210.8	11.0	9.9	8.9	-94.8	-10.0	-10.1
Bilateral	191.2	6.8	6.2	5.5	-96.4	-8.8	-11.3
Multilateral	-	3.8	3.6	3.4	-	-5.3	-5.6
Private sector	19.6	0.4	0.1	-	-98.0	-75.0	-
Domestic debt	30.4	33.0	28.3	26.5	8.6	-14.2	-6.4

Source: CEPAL, on the basis of official data.

/Despite the



Despite the agreement of the Netherlands Government to supply over Sf 1.5 billion in financial aid for the next decade and a half, the Government is still faced with the problem of having to arrange its own funding. Revenue foregone as the result of fiscal incentives which provide for exemption from taxes and duties, combined with slow growth of export earnings from the main products, results in additional pressure to find capital for investment. These circumstances stimulated the introduction of the Bauxite Levy in 1974, but it has been showing lower rates of return than anticipated.<sup>2/</sup>

The public debt continues to fall from its 1974 level. In the period under review there was a moderate decline from 1976 (7%). Since 1975 domestic sources of debt financing have become more important than external financing (see table 14). In 1974 the external debt was 87% of the total public debt, but this source fell to only 25% of the total in 1977. Both external and internal debts decreased in 1977 by 10% and 6% respectively. The substantial decline in the external debts from 1975 to 1977 was the result of the cancellation of debts owing to the Netherlands Government.

Estimated total expenditures grew by 22% in 1976 and 21% in 1977. Wages and salaries continue to dominate the current expenditure, with official estimates for 1977 showing an increase of 46% over 1976 levels. This is about 60% of the total current expenditure. There was a considerable overall reduction in the current expenditure of transfer payments.

Fixed investment continues to account for a large portion of capital expenditure, having increased its share position from 78% in 1976 to 80% in 1977. This represents an absolute change of 13%. Expenditures on surveys and research, and on financial investments, rose substantially during the period (by approximately 12% and 75% respectively). The latter type of investment is of increasing importance, while the expenditure on capital transfers fell by 54%.

In terms of functional classification, 38% of the Government's total current and capital expenditure was spent on utilities and infrastructure, while 26% of the total expenditure was absorbed by the social services. This represents changes of 15 and 19% from 1976 in the estimated expenditure.

<sup>2/</sup> The levy is calculated using a price formula based on bauxite and bauxite equivalents of alumina and aluminium exported and a fixed percentage of 6% of the world market price of aluminium but not less than US\$ 0.35 per pound.

## TRINIDAD AND TOBAGO

### 1. The overall picture

Preliminary estimates for gross domestic product show a nominal rise of 17% in 1977. Given that prices rose on average by slightly less than 12% during the year, real growth appears to have approximated the respectable 5% rate of expansion achieved in 1976 (see table 1).

The petroleum sector continued to be the principal source of growth and prosperity. Crude production more than recovered from the damage generated by last year's fire at some offshore wells, while recent natural gas finds are reported to be substantial. Other sources of growth in 1977 were finance, insurance and real estate. Manufacturing, while very active at the beginning of the year, later showed signs of slackening, in part because exports were limited by import restrictions imposed by externally weak partners in the Caribbean Community and Common Market (CARICOM). Expansion of construction activity continued to be handicapped by shortages of inputs and high costs. The performance of the agricultural sector was mixed; output of coffee and cocoa and of some domestic crops increased significantly, but production of sugar, the principal export crop, underwent a sharp decline.

While Trinidad has enjoyed unprecedented economic growth since 1974 it appears that gains have been concentrated in sectors which do not easily absorb labour. This may be one reason why Trinidad's chronically high rate of unemployment has shown little improvement, 1977 marked the first year since the "oil boom" in which the rate of unemployment actually declined, albeit marginally (from 15% to 14%).

The impact of high world petroleum prices on the economy is most clearly manifest in the balance of payments. As seen in table 1, large current account surpluses have been recorded, as export earnings have been far in excess of import requirements. In 1977 the current account surplus actually rose by 66%, which is counter to trends for other petroleum exporters of the region.

/Table 1

Table 1

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	893	963	1 198	1 336	1 400 <sup>a/</sup>	...
Population (millions)	0.98	0.99	1.00	1.01	1.02	1.03
Per capita gross domestic product (US dollars at 1970 prices)	914	976	1 200	1 324	1 373 <sup>a/</sup>	...
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product <sup>b/</sup>	5.2	7.9	24.3	11.5	4.8 <sup>a/</sup>	...
Per capita gross domestic product	...	6.8	23.0	10.3	3.7 <sup>a/</sup>	...
Terms of trade	-9.6	16.2	34.5	-1.6	1.0	-0.9
Current value of exports of goods and services	12.8	26.1	159.8	-11.9	22.0	-0.9
Current value of imports of goods and services	14.0	4.5	123.6	-17.5	32.6	-8.0
Consumer price index						
December - December	8.0	24.4	18.6	13.4	12.0	11.4
Variation between annual averages	9.3	14.8	22.0	17.0	10.5	11.8
Money	17.8	1.4	29.0	48.4	46.5	25.3
Wages and salaries <sup>c/</sup>	12.9	10.4	11.9	28.5	21.7	11.7
Rate of unemployment	...	15.0	15.0	16.0	15.0	14.1
Current income of government	15.1	18.2	136.5	16.5	19.0	43.5
Total expenditure of government	19.0	3.7	57.0	31.4	31.0	4.6
Fiscal surplus/total expenditure of government	9.7 <sup>d/</sup>	3.0	55.2	37.5	24.9	71.3
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	-89	70	500	551	499	646
Balance on current account	-155	-19	280	313	223	370
Variation in net international reserves	-13	-7	335	509	261	469
External debt <sup>e/</sup>	114	141	155	150	99	...

<sup>a/</sup> Preliminary figures subject to revision.

<sup>b/</sup> Based on unrounded data.

<sup>c/</sup> Nominal minimum wage for manual workers in all industries.

<sup>d/</sup> Deficit.

<sup>e/</sup> Disbursed public and publicly-guaranteed debt at end of period.

/Underlying the

Underlying the enlargement of the surplus was an 8% decline in the value of imports, brought on by reduced purchases of crude oil for processing in local refineries. Export earnings on the other hand remained relatively stable, as lower volume was almost offset by higher unit prices. Focusing exclusively on petroleum exports, which account for 90% of the total, shipments of crude were about 11% higher than the year before, while the volume of refined products exported fell by about 15%; on the other hand, average export prices for all petroleum products were about 9% higher.

Since 1974 current account surpluses have been supplemented by significant net inflows of capital, largely connected with private transactions. Thus the overall balance of payments has shown even larger surpluses; in 1977 the surplus was almost 470 million dollars, close to double that recorded in 1976. The accumulated surplus for 1974-1977 is 1.6 billion dollars (see table 1).

This accumulation of foreign resources, large by any standard, becomes even more impressive when one considers that the nation's total population barely exceeds 1 million. Indeed, the country's stock of 1.5 billion dollars in gross international reserves at the end of 1977 represented the highest reserves balance in per capita terms in the whole of Latin America.

The Government managed to keep the lid on consumer prices in 1977, as the average increase of 12% was about in line with stated objectives and only slightly higher than the price rise in 1976.

While inflation remains considerable for Trinidad, holding the line on prices is no small achievement given the fast rate of growth of the means of payment in recent years. In 1977, the Government expressed particular concern about the amount of liquidity in the monetary system and focused attention on control of domestic financial resources, with emphasis on the supply of money. The policy took some effect as the rate of expansion of money, although still high at 25%, was roughly half that experienced in 1975-1976. Other measures employed to hold down the rise in prices have been a relative degree of fiscal restraint, extensive use of price controls and subsidies, incentives to boost domestic output and easier access to imports.

/Partial data

Partial data on worker remuneration suggest that wage adjustments in 1977 slowed down in line with the lower rate of domestic inflation (see table 1). While the increase in 1977 was roughly on a par with the rate of price increases, adjustments in previous years appear to have resulted in significant real gains for workers.

As far as the fiscal accounts are concerned, in 1977 there was evidence that the Government was attempting further to control the inflationary impact of the budget. While revenues increased by 44%, expenditure growth was held back to 5%, which represents a decline in real terms. In preceding years the budget was clearly expansionary, notwithstanding efforts at restraint that are manifest in the large fiscal surpluses recorded in 1974-1976 (see table 1). The expenditure restraint in 1977, coupled with the notable growth in revenue, caused the fiscal surplus to swell to record proportions and reach the equivalent of over 70% of expenditure.

With regard to government development policy, since the rise in oil prices in late 1973 the authorities have had to cope with the totally unaccustomed phenomenon of a massive influx of foreign exchange receipts. The policy response appears to be focused on striking a balance among three basic objectives: (i) immediate enhancement of employment opportunities and social well-being while (ii) minimizing inflation and (iii) ensuring that an adequate amount of resources is channelled into productive investment that will diversify the economy and provide long-term growth in income and employment. Clear strategies have evolved to accomplish these goals.

A significant amount of the receipts for petroleum have entered the domestic income stream, with the central government being a major channelling agent. This, in turn, has stimulated economic activity and presumably employment. However, as already noted, the rate of unemployment has remained very high, partly because growth has lagged in labour intensive sectors, but also because employment bottlenecks have developed owing to the low skill level of much of the work force. To tackle the latter problem, the Government has taken direct and specific measures; attention has been given to increasing or updating the skill level of the work force through the sponsorship of vocational schools, training camps, and apprenticeship programmes.

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In an effort to improve the quality of life, the Government has also placed considerable emphasis on expanding and improving social services, health facilities, education, and upkeep of public institutes and areas. Of particular interest are the school building programmes at the secondary level, and programmes for road extension and increased access to water. Also worthy of note are reductions in personal income taxes for individuals in lower income brackets and increased allowances for medical expenses.

While providing immediate benefits to its citizens, the Government has attempted to minimize inflation by withholding a large part of its petroleum wealth from the economy through the generation of fiscal surpluses. Also, in 1977 it showed much greater restraint with expenditures. And as already noted, prices have been held down through the use of direct controls and/or subsidies as well as incentives designed to increase the local supply of goods and services.

The Government plans to invest its surplus income in an ambitious industrial development programme which centres on exploitation of Trinidad's natural resource base. Energy-intensive projects in steel, aluminum, fertilizers, petrochemicals, to name just a few, are in the planning or implementation stage, often in co-operation with foreign transnational corporations. Much of the output is destined for export. There has also been some discussion of development of a local capital goods sector.

Finally, it is worth noting that the country's investment plans appear to make good use of available energy resources, but it remains to be seen whether this essentially capital-intensive programme will be sufficient to eliminate the country's chronic unemployment problem. If unemployment is to be eradicated, similarly intensive planning and investment may also be needed for more labour-intensive activities such as agriculture.

## 2. Sectoral trends

For a number of years Trinidad has been developing a new national accounts system. The results of this work appeared in 1977, as preliminary GDP estimates were published for the period 1966-1976.<sup>1/</sup> Included are estimates for the product in real terms, a sectoral breakdown of which is presented in table 2 for the years 1972-1976. Before proceeding to analyse economic events in 1977, it would be useful briefly to review these preliminary data for growth trends in the recent past.

Estimates reveal that most of Trinidad's recent growth in real terms has been attributable to the petroleum sector and that the domestic economy as a whole has yet to display the dynamism that one might expect from an oil wealthy country. Overall growth for the economy during 1973-1976 averaged nearly 12% per annum; however, in the absence of the petroleum sector, real growth averaged less than 1% per annum; if sub-periods are considered, the averages were a negative 2.1% for 1973-1974 and 3.5% for 1975-1976.

During 1973-1974, the only non-oil sectors to show any dynamism were finance, insurance, and real estate, which expanded on average by roughly 10% per annum (probably on the strength of the growing financial liquidity generated by the petroleum sector) and miscellaneous activities which increased by 7.1% per annum. The real activity of the rest of the non-oil economy tended to either decline or show marginal growth.

Despite the relatively modest overall growth in the non-oil economy in 1974-1975, there was some evidence of increased dynamism. There was a recovery in agricultural product (average growth of 10% per annum), higher volume in manufacturing (9%), expansion of the electricity sector (17%), accelerated growth of finance (19%), and expansion of government (4%) and miscellaneous activities (7%). These gains, while significant, were offset to a large degree by declines in the important construction, transport and communications and distribution sectors (see table 2).

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<sup>1/</sup> It should be noted that the preliminary estimates for petroleum are currently under revision because they have been found to overstate the sector's contribution to the product.

Table 2

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of Trinidad and Tobago dollars at 1970 prices					Percentage breakdown <sup>b/</sup>		Growth rates <sup>b/</sup>			
	1972	1973	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1973	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>
Export agriculture	11	8	8	12	8	0.8	0.3	-27.7	3.7	40.5	-33.1
Domestic agriculture	39	49	44	48	47	2.2	1.7	25.8	-10.5	9.6	-1.5
Sugar <sup>c/</sup>	67	38	26	24	41	2.9	1.5	-43.0	-31.1	-11.0	72.8
Subtotal	117	95	78	84	96	5.9	3.5	-18.8	-17.6	6.0	15.0
Petroleum <sup>d/e/</sup>	374	543	1 044	1 268	1 353	22.3	48.3	44.9	92.4	21.4	6.8
Manufacturing <sup>f/</sup>	177	174	177	186	209	9.3	7.5	-1.4	1.3	5.5	12.3
Construction	141	137	137	145	131	5.9	4.7	-3.0	0.1	5.2	-9.6
Subtotal goods	810	949	1 436	1 683	1 789	43.4	64.0	17.2	51.3	17.1	6.4
Electricity and water	41	40	31	39	43	2.0	1.5	-2.7	-20.5	25.5	8.6
Transport, storage and communications	254	243	250	215	211	14.8	7.6	-4.1	2.8	-14.0	-1.7
Subtotal basic services	294	283	281	254	254	16.8	9.1	-3.9	-0.5	-9.6	-
Finance, insurance and real state	144	154	176	241	248	8.6	8.9	7.2	13.9	37.3	2.8
Distribution of services	246	225	193	173	164	15.6	5.9	-8.7	-13.9	-10.6	-5.0
Government	164	177	163	167	178	8.4	6.3	7.7	-7.5	2.4	6.2
Miscellaneous <sup>g/</sup>	127	140	146	154	167	7.4	6.0	10.0	4.0	6.2	8.4
Subtotal other services	681	695	678	735	757	40.0	27.1	2.1	-2.5	8.6	2.9
Product, excluding petroleum	1 412	1 384	1 351	1 404	1 447	77.7	51.7	-1.9	-2.4	3.9	3.0
Total gross domestic product	1 786	1 927	2 395	2 672	2 800	100.0	100.0	7.9	24.3	11.5	4.8

Source: Central Statistical Office, The Gross Domestic Product of the Republic of Trinidad and Tobago, 1966-1976.

a/ Preliminary figures subject to revision.

b/ Calculated on the basis of unrounded data.

c/ Includes refining and distillation.

d/ Includes refining, marketing and petrochemicals.

e/ Official estimates for petroleum's contribution to GDP are overstated by some undisclosed amount and are currently being revised.

f/ Includes quarrying.

g/ Includes hotel, education and personal services.

/As noted



As noted earlier, preliminary information suggests that overall real growth in 1977 approximated the 5% rate achieved in 1976. However, once again petroleum was the principal source of dynamism. A setback appears to have taken place in agriculture, and manufacturing appeared to lose some of its buoyancy. Construction remained hampered by shortages of skilled labour and materials. Meanwhile, financial and real estate activities continued to grow. Thus, it does appear that although petroleum wealth has generated a degree of prosperity in Trinidad, it has yet to become the catalyst for a sustained, rapid and broad-based expansion of the domestic economy.

(a) Agriculture

This sector, which is composed of export agriculture, domestic agriculture, and the sugar industry, makes up about 3 1/2% of the total product. Preliminary estimates show that in 1977 the sector's product declined by 9% in current terms, which means an even more severe fall in real terms. This represents a little afforded setback given that the real product in 1976 was only on a par with that recorded in 1973. The poor performance of agriculture in 1977 was attributable to a fall in the output of the sugar industry and only mixed results from domestic agriculture and other export crops.

Output of sugar, the country's principal agricultural export, declined by 14% to 173,000 tons. Thus the sugar sub-sector was unable to maintain the momentum achieved in 1976 when production showed signs of recovering from the rather dismal performance of the 1970s (see table 3). The problems of the industry are highlighted by recalling that in 1968 production of sugar was equivalent to 240,000 tons.

The fall in the volume of sugar produced in 1977 reflects the effects of increased recourse to cane fires,<sup>2/</sup> industrial unrest among sugar workers and operational disruptions associated with the implementation of a capital rehabilitation programme for the industry.

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<sup>2/</sup> The burning of cane fields is a technique that reduces the amount of work needed to cut cane during harvest. However, burning is also accompanied by a reduction in sugar yield.

Table 3  
TRINIDAD AND TOBAGO: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	January-September		Growth rates		
					1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup> a/b/
<u>Production of some important items (millions of units)</u>									
Sugar cane (tons)	1.9	1.7	1.2	...	2.2	1.9	-10.5	-28.1	-16.6
Sugar (tons)	183	160	200	173	...	...	-12.6	25.3	-13.5 <sup>c/</sup>
Cocoa beans (pounds) <sup>d/</sup>	9.2	11.6	7.2	9.3	...	...	26.1	-38.0	29.2 <sup>c/</sup>
Coffee beans (pounds) <sup>d/</sup>	4.3	8.9	5.9	7.4	...	...	107.0	-33.7	25.4 <sup>c/</sup>
Oranges (pounds)	24.7	6.6	14.8	...	13.4	1.6	-75.3	125.6	-87.9
Grapefruits (pounds)	39.0	13.8	19.4	...	17.8	5.5	-64.6	40.1	-69.0
Citric juices (gallons)	2.1	0.6	1.2	...	1.4	3.4	-71.4	89.6	142.9
Beef and veal (pounds)	3.2	2.7	2.9	...	2.1	2.0	-16.4	-5.6	-7.1
Pork (pounds)	4.4	3.5	5.3	...	3.5	4.1	-20.6	51.7	14.6
Mutton (pounds)	0.1	0.1	0.1	...	0.1	0.1	-	47.0	-21.6
Poultry (pounds) <sup>e/</sup>	43.1	59.6	59.7	...	41.2	57.4	38.4	0.2	39.5
Eggs (dozen) <sup>f/</sup>	3.6	4.1	2.9	...	2.7	3.5	13.9	-28.7	28.8
Fish (pounds) <sup>g/</sup>	6.0	6.6	6.0	...	2.9	3.1	10.7	-9.5	8.4
Milk (gallons) <sup>h/</sup>	1.6	1.7	1.4	...	1.1	1.0	6.4	-18.4	-8.7
Tobacco (pounds) <sup>i/</sup>	0.7	0.6	0.3	...	0.3	0.2	-8.4	-48.3	-35.8
Copra (tons) <sup>j/</sup>	6.6	8.8	9.0	...	6.6	6.9	33.3	2.3	4.5

Sources: Central Statistical Office, Quarterly Economic Report (several issues); Quarterly Agricultural Report, July-September 1977; Statistical Digest, vol. X, No II. Central Bank of Trinidad and Tobago; Ministry of Industry and Commerce; Co-operative Citrus Growers Association of Trinidad and Tobago Ltd.; Sugar Manufacturers Association; and data supplied to CEPAL.

a/ Preliminary figures.

b/ January-September 1977 compared with corresponding period of 1976.

c/ Full-year data.

d/ Deliveries to principal exporters.

e/ Line weight poultry.

f/ Commercial production.

g/ Fish delivered to principal markets.

h/ Principal producers only.

i/ "Flue-cured" tobacco purchased by West Indian Tobacco Company from contract farmers.

j/ Delivered to manufacturers of copra products.

/Another problem

Another problem that the industry confronted in 1977 was the very low price offered on world markets for sugar. The average world price (New York) in 1977 was 8 US cents per pound; compared with 12 US cents in 1976 and nearly 30 US cents during the cyclical boom of 1974. The price situation could improve somewhat for Trinidad as a result of the conclusion in 1977 of the International Sugar Agreement. Also providing some relief is the fact that Trinidad, along with other English-speaking countries of the Caribbean, can expect to benefit from favourable support prices associated with the Sugar Protocol of the European Economic Community's Lomé Convention. In 1977 support prices under this latter programme rose by 2%.

As for other major export crops, volume data indicate that in 1977 cocoa and coffee production responded to good weather conditions by showing substantial gains in 1977 (see table 3). While output still remained below levels achieved in 1975, the partial recovery enabled the country to take better advantage of favourable world prices: the per pound increases in export prices were 83% and 67% for cocoa and coffee, respectively.

Production of citrus fruit continued to show a sharp declining trend in 1977. Output as of September was 77% below that achieved in the corresponding period of 1976, itself a year when production was far below the norm. Factors behind the notable deterioration of output were unfavourable weather, tree disease, labour shortages, and a general reduction in acreage under cultivation.

The performance of domestic agriculture in 1977 was very mixed. Part-year data show gains in the production of vegetables, but reduced output for root crops. Meat products did well, but tobacco production continued to fall and copra output remained well below the nearly 12 tons recorded in 1973. With regard to producer prices for domestic agricultural goods, there appeared to be a general improvement in 1977.

With respect to government priorities for food production and agricultural development, emphasis has been placed on subsidies and guaranteed prices for the purpose of stimulating production. The Government is also promoting greater utilization of natural gas in the processing of onions and vegetables into a

/dehydrated state.

dehydrated state. As for sugar cane, there has been more employment of irrigation and mechanical cutting in order to enhance profitability. There has also been some discussion of expansion of sugar refinery capacity.

(b) Petroleum

Petroleum dominates the Trinidadian economy. It accounts for 48% of total product in real terms, 90% of total exports, 48% of imports and contributes to bulk of government revenue. Preliminary data suggest that in 1977 the sector continued to show dynamism despite generally sluggish conditions in the world petroleum markets.

In current terms, the sector's product showed growth of 35% over 1976 and there are indications that considerable real expansion took place as well. Looking to the recent past, in 1975 the sector grew by 21% in real terms, while in 1976 real growth was held down to 7%, in part because of damage to offshore facilities from a major fire (see table 2).

Crude petroleum produced in 1977 amounted to 84 million barrels, an increase of 8% over the 1976 production figure. Approximately 80% of total production was derived from offshore operations, which reached normal output levels of 130,000 barrels daily.

Trinidad imports large amounts of crude which are processed in refineries and then re-exported. The imports are necessary because local refinery capacity exceeds the production of indigenous crude and because these refineries are designed for heavy oils, while the national product is largely of a lighter variety and therefore must be processed abroad. In 1977 crude imports declined by 22%, while crude exports rose by 11% to 50 million barrels (equivalent to 60% of national output).

As for refinery activity, both throughput and output declined by 15% in 1977 owing to reduced crude production from deteriorating national land wells as well as cutbacks in local refinery capacity.

First quarter data on natural gas production show an increase of 5% over the amount produced during the same period of 1976, while data for January-August indicate a marginal increase in sales of natural gas (see table 4). However, with the coming-on-stream of the Tringen Ammonia Plant in late 1977, as well as the Trinidad & Tobago Electricity Commission's new generator plant at Point Lisas, full-year data would reflect substantial increases in natural gas production and sales.

Table 4

TRINIDAD AND TOBAGO: PETROLEUM AND NATURAL GAS PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	1976	1977	Growth rates		
							1975	1976	1977 <sup>a/</sup>
Indicators of petroleum and refining activity (millions of barrels)									
Crude production	68.1	78.6	77.7	83.6	...	...	15.4	-1.2	7.6
Crude imports	195.5	158.1	84.8	65.8	...	...	-39.2	46.0	-22.4
Crude exports	31.8	48.8	44.4	49.4	...	...	53.5	-9.0	11.3
Refinery throughput	130.8	85.7	117.6	99.5	...	...	-34.4	37.2	-15.4
Refinery output	127.1	82.9	114.3	96.8	...	...	-34.8	-37.9	-15.3
Natural gas production (millions of cubic meters)	3 849	3 795	4 139	-	1 026 <sup>b/</sup>	1 073 <sup>b/</sup>	-14.1	9.1	4.6
Natural gas sales	899	946	1 008	-	640 <sup>c/</sup>	649 <sup>c/</sup>	5.2	6.6	1.4

Source: Ministry of Finance, Review of the Economy 1977; and data supplied to CEPAL.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> January - March.

<sup>c/</sup> January - August.

/Trinidad's present

Trinidad's present use of natural gas taps only a fraction of available resources. Proven and potential reserves are estimated to be 416 billion cubic metres. This does not include promising gas sites in the Gulf of Paria off the west coast of the island; neither does it include gas associated with current oil extraction, 50% of which is burnt off. The Government plans to deploy its gas resources to support new energy-intensive industries at Point Lisas; these include the aforementioned ammonia and electricity plants as well as a fertilizer plant, iron and steel complex, aluminium smelter and petrochemical facilities. A number of other projects are also contemplated. Even with the development of local industries that will feed on natural gas, Trinidad will still have a large available surplus. Thus, also mentioned as a possible project is the development of a liquefied natural gas facility that would export principally to the United States.

Government action in the sector has included the introduction of tax incentives to encourage secondary and tertiary recovery methods at land wells, the output of which has shown a declining trend since 1971. These incentives are expected not only to boost oil production, but also to benefit employment since land wells absorb considerably more labour than offshore operations. Other recent developments within the sector include the purchase by the Government of all petroleum marketing operations and the completion of the 24" pipeline that will transport natural gas from Texaco's Beach Field to Picton.

(c) Manufacturing

Manufacturing accounts for about 8% of total product in real terms. The sector has shown considerable dynamism in recent years. Between 1972 and 1976 it grew by 33% in real terms, for an average rate of growth of 6% per annum. Fast growing activities have been metal products, food processing, miscellaneous items, beverages and tobacco and assembly-type industries. Slower growing activities have included textiles, knitted garments, footwear, wood products and mattresses.

The manufacturing index for the first six months of 1977 was 13% higher than the index for the corresponding period of 1976. If this trend continued for the remainder of the year, growth in output would be roughly equivalent to 1976. However, preliminary information suggests that a slowdown occurred

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in the second semester and therefore the performance for the full year may have been somewhat less dynamic. This is partially reflected in table 5, which shows that by September production of some important products was considerably below output for the similar period a year earlier; indeed, only production of bricks and blocks - stimulated by construction activity - and the highly income-elastic products of the assembly industries were clearly ahead of activity in 1976. One possible cause of the slowdown was a loss of export markets due to import restrictions imposed by some trading partners in the Caribbean.

During 1977 the Government continued to provide support for the development of the industrial sector.

During January-September 1977 the Trinidad & Tobago Development Finance Company Ltd., committed TT\$ 22 million 3/ to 51 industrial enterprises. These enterprises are expected to generate some 1,400 direct jobs. Most of the enterprises financed were medium-sized, producing light manufactured goods, and involved new entrepreneurs who could not obtain adequate or appropriate finance from the commercial banking system.

Meanwhile, the Industrial Development Corporation has maintained its programme of promoting industrial development, using as its principal instrument fiscal concessions to industrial enterprises, including protection by way of "negative listing". Application of these measures covered a wide range of industrial activities and involved diverse sub-sectors. Efforts have also been made to effect the widest possible geographical coverage in the promotion of such activities.

Based on its own resources, and in collaboration with other agencies, local and foreign, the Industrial Development Corporation has additionally carried out a number of basic studies on new industrial projects. These are related to market and feasibility studies for an aluminium smelter, a polyester fiber-fabric plant, a petrochemical complex, a methanol plant, a granular fertilizer plant, a refractories plant, a pulp and paper industry, fermentation industries based on molasses, a cement plant extension, metal and plastic projects and assembly of small agricultural tractors. Additionally, a number of sectoral studies and investigations have been undertaken for programmed development of production in cosmetics, detergents, insecticide, paint, coil-fibre and footwear.

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3/ TT\$ 2.40 = US\$ 1.00.

Table 5

TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION<sup>a/</sup>

	1974	1975	1976 <sup>b/</sup>	January-June		Growth rates <sup>c/</sup>		
				1976 <sup>b/</sup>	1977 <sup>b/</sup>	1975	1976 <sup>b/</sup>	1977 <sup>b/</sup>
1. <u>Index of manufacturing production</u>	115.6	119.0	135.5	125.8	141.8	2.9	13.9	12.7
Food processing	130.6	146.9	152.4	151.0	152.6	12.5	3.7	0.8
Drink and tobacco	133.2	134.5	145.3	138.3	138.0	1.0	8.0	-
Textiles	78.9	77.6	86.0	85.9	80.0	-1.6	10.8	-6.9
Printing and publishing	145.0	118.3	113.2	101.9	131.0	-18.4	-4.3	28.6
Wood products	75.7	76.9	99.3	89.4	86.5	1.6	29.1	-3.2
Chemical products	88.6	93.9	104.7	97.9	89.8	6.0	11.5	-8.3
Building materials	101.2	98.7	102.4	100.1	115.1	-2.5	3.8	15.0
Assembly industries	112.6	119.3	140.0	131.6	173.0	6.0	17.4	31.5
Metal products	138.9	158.6	276.1	205.7	327.9	14.2	74.1	59.4
Miscellaneous	117.7	140.1	148.2	151.1	112.0	19.0	5.9	-25.9
2. <u>Production of some manufactured goods</u>								
A. In millions of units								
Rum (gallons)	4.3	3.8	4.1	3.1	3.2	-11.6	6.8	2.1
Beer and stout (gallons)	4.5	5.4	6.6	4.8	4.6	19.4	22.5	-5.5
Tobacco and cigarettes (pounds)	1.8	2.1	2.3	1.7	1.3	18.5	8.3	-23.5
Edible oil (gallons)	1.3	1.8	2.1	1.6	1.3	33.7	14.3	-21.3
Margarine, kard (pounds)	16.4	14.6	16.8	12.7	11.1	-11.0	15.1	-12.1
Soap (pounds)	11.8	14.1	13.3	10.5	7.6	19.0	-5.2	-27.6
Bricks and bloks (units)	25.0	20.1	20.9	15.9	19.6	-19.7	3.9	23.3
B. In thousands of units								
Cement (tons)	238.0	255.0	238.0	179.0	162.0	7.1	-6.7	-9.2
Fertilizer (short tons)	411.0	381.0	373.0	274.0	256.0	-7.3	-2.3	-6.7
Motor vehicles	6.0	8.0	11.6	8.0	10.9	33.4	45.0	36.4
Radios and television sets	25.1	27.2	30.4	18.9	21.3	8.2	11.9	12.6
Gas stoves	...	15.0	18.6	14.6	18.5	...	23.9	26.9
Refrigerators	...	24.1	27.8	20.6	17.1	...	15.3	-17.2

Sources: Ministry of Finance, Review of the Economy 1977; Central Statistical Office, Economic indicators, April-June 1977, and Quarterly Economic Report, July-September 1977; Central Bank, Statistical Digest, vol. X, No 11, 11 November 1977; and data supplied to CEPAL.

a/ The data exclude petroleum, sugar and shipbuilding.

b/ Preliminary figures.

c/ Calculated on the basis of unrounded data.

d/ January-June and January-September 1977 compared with the corresponding period of 1976.

/Most of



Most of the planned new industries are energy-intensive and will rely on Trinidad's abundant petroleum and natural gas supplies. The thrust towards a deepening of the industrialization process reflects a general desire to diversify the country's industrial structure away from assembly-type industries. The major vehicle used in the diversification strategy has been joint venture enterprise involving the Government on the one hand, and other Caribbean governments or large foreign private enterprises on the other. In this context the main achievements have been the completion and coming-on-stream of the fertilizer-ammonia plant, the acquisition and preparation of a site for the iron and steel complex, and the putting into service of an 88-MW power plant.

(d) Construction

Construction accounts for roughly 5% of total product in real terms. The level of activity in the sector is suggested by data on building plans. Information for the first six months of 1977 show a 32% increase in the number of building plans approved over the comparable period of 1976, while the amount of planned floorspace was 64% larger (see table 6).

Although these data suggest considerable activity, the sector has been plagued by numerous problems that have seriously retarded real growth. The rise in oil income has placed heavy demands on the industry to accommodate accelerated industrialization, infrastructural development, housing construction and improvement of social amenities. But construction has been hampered by critical shortages of domestic and foreign building materials, insufficient land for development and a scarcity of trained personnel at all levels. High costs for land, materials and labour have also been a problem. An indication of the upward trend in costs is given by the fact that the minimum wage for manual workers in the construction industry showed an increase slightly over 9% during the first eight months of the year, while the index of retail prices for building materials was up by nearly 18% for the same period.

The Government has attempted to relieve bottlenecks through a number of measures.

/Table 6

Table 6  
TRINIDAD AND TOBAGO: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	1975	1976	1976	1977	Growth rates		
						1975	1976	1977 <sup>a/</sup>
Approved building plans								
Dwelling houses <sup>b/</sup>								
Number of plans	2 995	2 322	2 813	1 219	1 625	-22.5	21.1	33.3
Floor space (thousands of sq. ft.)	3 652	3 104	3 961	1 673	2 243	-15.0	27.6	34.1
Commercial and industrial								
Number of plans	57	49	61	25	36	-14.0	24.5	44.0
Floor space (thousands of sq. ft.)	238	330	439	121	268	38.7	33.0	21.5
Other buildings <sup>c/</sup>								
Number of plans	105	85	113	52	53	-19.2	32.9	1.9
Floor space (thousands of sq. ft.)	332	311	346	141	656	-6.3	11.3	365.2
<u>Total</u>								
<u>Number of plans</u>	<u>3 157</u>	<u>2 456</u>	<u>2 987</u>	<u>1 296</u>	<u>1 714</u>	<u>-22.2</u>	<u>21.6</u>	<u>32.2</u>
<u>Floor space (thousands of sq. ft.)</u>	<u>4 222</u>	<u>3 744</u>	<u>4 747</u>	<u>1 935</u>	<u>3 166</u>	<u>-11.3</u>	<u>26.8</u>	<u>63.6</u>

Source: Central Statistical Office, Quarterly Economic Report, April-June 1977; and data supplied to CEPAL.

<sup>a/</sup> January-June 1977 compared with the corresponding period of 1976.

<sup>b/</sup> Includes private dwelling combined with commercial and industrial buildings.

<sup>c/</sup> Churches, schools, hotels, cinemas and blocks of flats.

Stimulus through tax incentives and financing has been provided for domestic production of building materials. A result of this policy is that demand for cement will be more easily met with the completion of the expansion of the local cement plant. Where domestic production cannot satisfy demand, imports have been encouraged; indeed, in order to overcome congestion at the national docks, a special port has even been assigned for imports of building materials.

Another measure employed is the granting of contracts to foreign construction firms. With a view to the longer run, plans are under way for the University of the West Indies and other training institutions to absorb additional trainees for courses that will prepare them for top and middle-level management positions.

Finally, in an effort to correct a rather large housing deficit, the Government raised lending limits for land acquisition, purchase of house and land, improvement and repairs, as well as mortgage guarantees, using the National Housing Authority as agent. Also the authorities have released publically-owned land for purposes of construction. These steps should enable individuals, particularly in lower- and middle-income groups, to acquire homes with low-cost financing.

### 3. Employment

Trinidad has long suffered from chronically high rates of unemployment. In 1977, unemployment was 14%, down slightly from the 15-16% of recent years (see table 1). Notably, unemployment is disproportionately concentrated among the nation's youth: while the 15-24 age group makes up 30% of the labour force, it accounts for nearly 60% of the unemployed.

Unemployment appears to a large extent to be a structural phenomenon. The country's most dynamic sector, petroleum, employs only about 2% of the work force. By adding manufacturing, another dynamic sector of recent years, total absorption of labour is still less than 20% of the work force.<sup>4/</sup> Meanwhile,

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<sup>4/</sup> It should be remembered the sub-sectors that would normally be considered relatively more labour-intensive such as textiles, knitted garments, and footwear have not been the fast growing activities in manufacturing.

agriculture, employing 15% of the work force (22% in 1970), has been stagnant, and construction along with transport and communications, employing another 22% of the work force, have not undergone any real growth in recent years.

The Government has tackled the problem in numerous ways. A new emphasis has been placed on agricultural expansion, which has included a "back to the land" campaign. Construction, another labour-intensive activity, has been the beneficiary of the Government's building programme. There has been wider use of training camps, vocational schools, and apprenticeship programmes in order to help channel national manpower into the numerous opportunities for skilled labour. Finally, the Government itself has acted as employer in the last resort by significantly expanding the public work force.

While all these measures should have some impact on employment, it must be remembered that the major thrust of the Government's petroleum-financed development programme remains in the expansion of energy- and capital-intensive industries. The impact of the programme on employment may therefore be moderate, except for the short-term period of construction. Thus, unless greater investment can be channelled into activities that employ technologies with high labour absorption, Trinidad may continue to have relatively high rates of growth juxtaposed with considerable rates of unemployment.

#### 4. The external sector

As recently as 1973, Trinidad has been experiencing balance of payments difficulties; but with the record rise in petroleum prices later that year, the external payments position underwent profound change, and the country has since consistently been running large current and overall surpluses. In 1977 this general trend continued (see table 7).

##### (a) The current account

Looking first at trade in goods, it can be seen that since 1974 Trinidad has registered large and progressively expanding surpluses. In 1977 the surplus rose by 24% to a level of 654 million dollars, reflecting the effects of a 1% decline in the current value of exports, coupled with a 9% fall off in the value of imports.

/Table 7

Table 7

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>Current account</b>						
Exports of goods and services	754	950	2 468	2 174	2 652	2 627
Goods FOB	595	720	2 180	1 899	2 370	2 337
Services	158	230	288	275	282	290
Transport	93	98	174	150	157	161
Travel	51	59	66	75	76	79
Imports of goods and services	842	880	1 968	1 623	2 153	1 981
Goods FOB	701	718	1 716	1 413	1 844	1 683
Services	141	162	252	210	309	298
Transport	107	97	161	115	209	192
Travel	27	24	26	33	37	41
Net payments of profits and interests on foreign capital	-69	-87	-213	-227	-266	-265
Profits	-67	-80	-213	-253	-311	-310
Interest	-2	-7	-	26	45	45
Net private transfer payments	2	-2	-7	-11	-10	-11
Balance on current account	-155	-19	280	313	223	370
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	155	19	-280	-313	-223	-370
(a) Net external non-compensatory capital	100	65	35	156	-16	
Direct investment	87	66	85	191	82	
Long and medium-term loans	24	34	46	7	5	
Amortization payments	-5	-39	-41	-26	-72	
Short-term liabilities	-	11	-46	-6	-12	
Official transfer payments	-6	-7	-9	-10	-19	
(b) Domestic non-compensatory capital or assets	8	4	-24	7	30	
(c) Errors and omissions	27	-56	42	33	24	
(d) Allocation of SDRs	7	-	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	13	7	-333	-509	-261	-469
Balance of payment loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	...
Variation in gross international reserves (minus sign signifies an increase)	13	7	-333	-509	-261	...
Foreign exchange reserves (minus sign signifies an increase)	13	-1	-326	-492	-250	...
Gold reserves (minus sign signifies an increase)	-	8	-6	-17	-11	...
SDRs (minus sign signifies an increase)	-		-1	-	-	...

Source: 1972-1976: CEPAL, on the basis of data from International Monetary Fund;  
1977: CEPAL, on the basis of official data.

a/ Preliminary figures.

/It is

It is worth noting that if oil trade is excluded from consideration, Trinidad's surplus turns into a deficit, which has been steadily increasing. Reflecting rising foreign purchases, the non-oil deficit rose from about 320 million dollars in 1974 to 560 million dollars in 1977 (nine months).

The lower total value of exported goods in 1977 was due to reduced volume; average unit prices rose by 6% (see table 8).

The major factor behind the behaviour of exports was petroleum products, which account for over 90% of the total (see table 9). In 1977, average prices for Trinidad's petroleum products rose by approximately 9%. However, volume was lower: while crude exports rose by 11%, this was more than offset by a sharp fall off in exports of refined products, manifest in the 15% reduction in refinery output (see table 4).

Export performance also was affected by the behaviour of agricultural products. On the one hand, the quantum and unit values of cocoa and coffee exports were significantly higher, while on the other, the dominant agricultural export, sugar, experienced a sharp fall in the quantity exported as well as unit value.

The lower value of imports in 1977 reflects a 15% decline in volume and a 7% rise in unit value. This behaviour again stems largely from events in the petroleum industry, because crude imports under processing agreements account for roughly 50% of the total value. As already noted, crude prices were higher in 1977, but volume imported declined because of reduced activity in the refinery sub-sector.

Imports related to the domestic sector showed less dynamism in 1977. As seen in table 10, non-petroleum imports as a group rose by about 12% (first nine months), compared with the 29% and 51% rates of increase recorded in 1976 and 1975, respectively. Although no precise information is available on volume for domestic imports, allowance for international price increases would suggest that sharp volume gains in 1975-1976 were followed by only a modest rise in 1977.

Table 8  
TRINIDAD AND TOBAGO: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977
	<u>Growth rates</u>					
Exports of goods						
Value	12.2	20.9	202.9	-12.9	24.8	-1.4
Volume	16.5	-7.4	1.4	-20.4	17.7	-7.0
Unit value	-3.7	30.6	198.5	9.5	6.0	6.0
Imports of goods						
Value	15.3	2.4	139.1	-17.7	30.5	-8.7
Volume	8.2	-8.8	7.8	-26.1	24.3	-14.7
Unit value	6.6	12.3	121.9	11.3	5.0	6.9
Terms of trade	-9.6	16.2	34.5	-1.6	1.0	-0.9
	<u>Indexes (1970 = 100)</u>					
Terms of trade	97.4	113.2	152.3	149.8	151.3	149.9
Purchasing power of exports of goods	95.3	106.9	133.6	106.7	130.6	120.4
Purchasing power of exports of goods and services	106.9	121.1	170.4	139.2	159.3	149.4

Source: CEPAL, on the basis of official data.

Table 9  
TRINIDAD AND TOBAGO: EXPORTS OF GOODS

	Millions of Trinidad and Tobago dollars (FOB)					Percentage breakdown		Growth rates <sup>a/</sup>		
	1974	1975	1976	January-September <sup>b/</sup>		1970 <sup>b/</sup>	1977	1975	1976	1977
				1976 <sup>c/</sup>	1977 <sup>a/</sup>					<sup>b/c/</sup>
<b>Principal exports</b>										
Mineral fuels and lubricants	3 760	3 376	4 891	3 645	3 688	77.3	91.1	-10.2	44.9	1.2
Non-petroleum exports	<u>407</u>	<u>503</u>	<u>502</u>	<u>392</u>	<u>362</u>	<u>22.7</u>	<u>8.9</u>	<u>23.4</u>	-	<u>-7.9</u>
Food, beverages and tobacco	171	248	207	185	163	8.8	4.0	44.8	-16.3	-12.2
Chemicals	141	137	152	121	115	7.9	2.8	-2.8	10.7	-4.7
Manufactured materials	28	36	35	26	26	2.0	1.0	26.9	-1.4	-
Machinery and transport	19	28	55	23	21	1.0	1.0	44.3	96.1	-11.1
Miscellaneous manufactured articles	34	42	41	28	24	1.9	1.0	22.4	-1.7	-12.4
Others	13	12	12	9	7	1.0	0.4	-8.4	-3.3	47.2
<b>Total <sup>d/</sup></b>	<u>4 166</u>	<u>3 878</u>	<u>5 393</u>	<u>4 037</u>	<u>4 049</u>	<u>100.0</u>	<u>100.0</u>	<u>-6.9</u>	<u>39.1</u>	<u>0.2</u>

Source: Central Statistical Office, Quarterly Economic Report, July-September 1977; and data supplied to CEPAL.

<sup>a/</sup> Calculated on the basis of unrounded data.

<sup>b/</sup> Preliminary figures.

<sup>c/</sup> January-September 1977 compared with the corresponding period of 1976.

<sup>d/</sup> The figures may not add up to the total because of rounding.



Table 10  
TRINIDAD AND TOBAGO: IMPORTS OF GOODS

	Millions of Trinidad and Tobago dollars (CIF)					Percentage breakdown		Growth rates <sup>b/</sup>		
	1974	1975	1976	January-September		1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/c/</sup>
				1976	1977					
<b>Principal imports</b>										
Petroleum products	2 716	1 640	2 763	2 074	1 673	53.2	49.5	-39.6	68.5	-19.4
<b>Non-petroleum imports</b>	<u>1 062</u>	<u>1 604</u>	<u>2 064</u>	<u>1 529</u>	<u>1 709</u>	<u>46.8</u>	<u>50.5</u>	<u>51.1</u>	<u>28.7</u>	<u>11.8</u>
Food and tobacco	263	302	342	257	299	10.3	8.8	15.0	13.1	16.3
Chemicals	117	150	183	138	159	4.4	4.7	28.8	21.8	15.3
Manufactured materials	313	457	483	357	441	12.8	13.0	45.9	5.7	23.5
Machinery and transport	240	535	829	620	596	12.5	17.6	122.5	55.1	-3.9
Miscellaneous manufactured articles	76	104	150	100	129	4.3	3.8	37.0	45.1	29.2
Other	53	56	77	57	85	2.5	2.6	5.6	36.5	48.6
<b>Total <sup>d/</sup></b>	<u>3 778</u>	<u>3 244</u>	<u>4 827</u>	<u>3 602</u>	<u>3 381</u>	<u>100.0</u>	<u>100.0</u>	<u>-14.1</u>	<u>48.9</u>	<u>-6.1</u>

Source: Central Statistical Office, Quarterly Economic Report, July-September 1977; and data supplied to CEPAL.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Based on unrounded data.

<sup>c/</sup> January-September 1977, compared with corresponding period of 1976.

<sup>d/</sup> The figures may not add up to the totals because of rounding.

/Turning to

Turning to non-factor services, Trinidad has traditionally maintained a surplus on the strength of income from tourism. In 1976, a combination of stagnant tourist trade - reflecting the recession in the industrial countries - coupled with the higher transport costs associated with greater import volume, created a 27 million dollars deficit on services (see table 7). This deficit was reduced in 1977 to 8 million dollars, because of the lower transport costs associated with the lower import volume. Net travel receipts declined slightly as growth in revenue from tourism was only modest and offset by a rise in the costs of Trinidadians travelling abroad.

Remittances of foreign income and interest payments were about the same in 1977 as the year before, or 265 million dollars. The notably higher payments since 1974 largely reflect the effects of higher profits for foreign petroleum companies due to the world price situation for hydrocarbons.

The net effect of the above components of the current account in 1977 was a surplus of 370 million dollars, 66% greater than the surplus in 1976 and considerably larger than any positive balance previously recorded.

Trinidad's large and seemingly growing current account surpluses - the cumulative total for 1974-1977 is 1.2 billion dollars - manifest the difficulty encountered in absorbing revenue generated by the petroleum sector. However, Trinidad might be better classified as a slow rather than a low absorber because there appears to be an adequate number of areas where resources could be deployed; indeed, as noted earlier, the Government already has targeted investments whose cost could absorb the accumulated surplus. A major drawback to a more rapid utilization of resources appears to be the scarcity of indigenous manpower to co-ordinate and implement the investment programme. The problem is made all the more acute by the fact that a disproportionate amount of responsibility has fallen on public employees, because the State is the principal recipient of petroleum revenues and the major actor in so far as new investments are concerned.

(b) The capital account

The country's accumulating surplus has been increased by net inflows on the capital account (see table 7). In 1977 the net inflow was roughly 100 million dollars, or more than double the inflow registered in 1976.

Following recent trends, most of the capital inflow is likely to have stemmed from movement of private capital; direct foreign investment on the one hand, and national assets and errors and omissions on the other. The direct investment reflects to a large extent the participation of foreign companies in the oil sector or in joint ventures with the Government. Meanwhile, the other private flows may be speculative and represent a view towards a possible appreciation of the local currency (on account of the strong payments position).

As for the Government, it has not been a net taker of capital since 1975 (when there was a marginal positive balance); indeed, the Government has lent funds abroad, for instance in 1976 when 87 million dollars was committed on soft terms to fellow Caribbean States to assist them with their balance-of-payments problems, and funds have also been lent to international agencies such as the International Monetary Fund (for its Oil Facility).

The net inflow on the capital account in 1977 helped to generate an overall balance-of-payments surplus of almost 470 million dollars, nearly double the overall surplus of 1976. The accumulated surplus since 1974 has been 1.6 billion dollars, or 1,555 dollars on a per capita basis.<sup>5/</sup>

The balance of payments performance caused gross international reserves to rise from only 47 million dollars in 1973 - equivalent to less than one month's domestic imports - to 1.5 billion dollars at the end of 1977, roughly equivalent to 18 months' worth of domestic imports. Trinidad's reserve balance is the fifth largest in Latin America in absolute terms, but if viewed on a per capita basis, it has by far the largest accumulation of reserves in the region, more than doubling the next highest which is Venezuela's.

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<sup>5/</sup> Per capita product in dollars at current prices was roughly 2,700 dollars in 1977.

(c) CARICOM trade

With regard to trade with fellow members of CARICOM, in the first nine months on 1977, exports were 2% higher than in the corresponding period of 1976, while imports were 5% higher. The resulting trade surplus of TT\$ 188 million was equivalent to that recorded for the similar period of the previous year.

The slowdown in the growth of Trinidad's CARICOM exports reflects the effects of import restrictions introduced by Jamaica and Guyana, two trading partners suffering from severe balance-of-payments problems. The fall off is clearest in the case of Jamaica, where Trinidad's exports fell by 45 and 13% in 1976 and 1977 (first nine months), respectively (see table 11). In reaction to these events, late in 1977 there was discussion in Trinidad about the possibility of applying selective import controls on goods from CARICOM members which have discriminated against its exports. It goes without saying that the rise in protectionist spirit among CARICOM members is lamentable and could represent a severe setback to the progress of the regional integration movement.

Trinidad's imports from CARICOM members represent 3% of the country's total imports. Exports on the other hand accounted for 7% of total exports (see table 12). Imports are composed mainly of manufactured items (43%), food and live animals (28%) and chemicals (15%). Exports to CARICOM are dominated by petroleum products, which account for 62% of the total. Other important exports are chemicals (10%), manufactured items (9%) and food (8%).

(d) External debt

Trinidad's disbursed external public and publicly-guaranteed debt at the end of 1976 was 99 million dollars, or 34% less than the balance recorded at the beginning of the previous year. The burden of the external public debt is relatively light, with the total equivalent to only about 4% of GDP; meanwhile, the debt service ratio is 3% (see table 13).

Table 11  
TRINIDAD AND TOBAGO: TRADE WITH CARICOM PARTNERS

Country	Millions of Trinidad and Tobago dollars					Percentage breakdown <sup>b/</sup>		Growth rates <sup>b/</sup>		
	1974	1975	1976	January-September		1970	1977	1975	1976	1977
				1976	1977 <sup>a/</sup>					<sup>a/c/</sup>
<b>Imports</b>										
Jamaica	25	36	51	34	40	33.8	41.8	43.6	40.6	18.7
Guyana	23	36	45	34	28	42.5	28.8	59.6	24.5	-19.1
Barbados	10	13	21	13	16	9.8	16.5	37.7	56.7	18.8
Belize	...	1	3	2	3	...	2.9	...	212.5	75.0
Others	5 <sup>d/</sup>	5	11	8	9	13.9 <sup>d/</sup>	9.9	15.2	130.2	11.8
<b>Total <sup>c/</sup></b>	<b>62</b>	<b>91</b>	<b>131</b>	<b>91</b>	<b>96</b>	<b>100.0</b>	<b>100.0</b>	<b>47.9</b>	<b>43.3</b>	<b>4.5</b>
<b>Exports</b>										
Jamaica	92	119	66	46	40	11.9	14.2	28.5	-44.5	-13.4
Guyana	99	120	169	122	129	32.5	45.6	21.1	40.4	6.3
Barbados	46	46	57	44	46	17.8	16.4	-	24.9	6.4
Belize	...	1	1	-	-	...	-	...	-44.4	-25.0
Others	102 <sup>d/</sup>	61	92	67	68	37.8 <sup>d/</sup>	23.8	-40.3	51.5	0.9
<b>Total <sup>e/</sup></b>	<b>339</b>	<b>346</b>	<b>384</b>	<b>279</b>	<b>284</b>	<b>100.0</b>	<b>100.0</b>	<b>2.2</b>	<b>11.0</b>	<b>1.7</b>

Source: Central Statistical Office: Quarterly Economic Report, July-September 1977; and data supplied to CEPAL.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Based on unrounded data.

<sup>c/</sup> January-September 1977, compared with the corresponding period of 1976.

<sup>d/</sup> Includes Belize.

<sup>e/</sup> The figures may not add up to the total because of rounding.

Table 12  
TRINIDAD AND TOBAGO: DIRECTION OF EXTERNAL TRADE

(Percentage)

	1973	1975	1976	January-September	
				1976	1977
<u>Exports (FOB)</u>					
United Kingdom	4.7	3.8	4.6	5.0	2.1
United States	52.5	66.4	65.8	65.0	70.3
Canada	1.6	1.2	0.8	0.8	1.1
European Economic Community <u>a/</u>	1.7	2.5	3.6	3.9	2.7
European Free Trade Association	6.3	0.3	0.3	0.4	-
CARICOM	11.0	9.4	7.3	7.5	7.3
Latin America <u>b/</u>	3.0	1.6	3.6	3.7	2.2
Others	19.2	14.8	14.0	13.7	14.3
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Import (CIF)</u>					
United Kingdom	11.3	8.8	7.6	7.5	9.7
United States	16.1	21.6	19.7	19.6	20.6
Canada	4.2	2.6	2.6	2.5	3.2
European Economic Community <u>a/</u>	5.1	3.6	3.0	3.3	3.9
European Free Trade Association	1.0	1.2	0.7	0.7	0.9
CARICOM	2.6	2.8	2.7	2.5	2.8
Latin America <u>b/</u>	13.8	1.8	3.3	3.8	2.4
Others	45.9	57.6	60.4	60.1	56.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Statistics Office, Annual Overseas Trade Reports; Bi-monthly Overseas Trade Report, vol. 25, No 6, and vol. 26, No 6.

a/ Excluding United Kingdom.

b/ Continental Latin America.

/Table 13

Table 13

TRINIDAD AND TOBAGO: INDICATORS OF PUBLIC INDEBTEDNESS<sup>a/</sup>

(Millions of Trinidad and Tobago dollars)

	1972	1973	1974	1975	1976 <sup>b/</sup>
1. Total external indebtedness <u>c/</u>					
Disbursed public debt and State-guaranteed private debt	114	141	155	150	99
2. Servicing of external debt <u>d/</u>	11.6	17.0	55.6	27.0	71.8
Amortization payments	5.3	8.8	40.6	15.1	61.7
Interest payments	6.3	8.2	15.0	12.0	10.1
3. Servicing of external debt, as a percentage of total exports less foreign investment income remitted abroad	1.7	2.0	2.5	1.4	3.1
4. Debt outstanding as a percentage of gross domestic product	10.8	11.2	8.4	6.6	4.3

Source: Government Printery, Estimates of Expenditures, 1976 and 1977; Ministry of Finance, Review of the Economy, 1977.

a/ Excludes short-term debt.

b/ Preliminary figures.

c/ End of period.

d/ During the period.

/Interestingly, in

Interestingly, in contrast to some other countries in Latin America, private commercial banks hold only a small portion of the country's public debt. At the beginning of 1977, banks held 12%,<sup>6/</sup> while multilateral and bilateral official agencies held 82%.

## 5. Prices and wages

### (a) Prices

The average rise in prices in 1977 was 11.8%, a little more than one percentage point above the average rate of inflation experienced in 1976. Thus inflation, as officially measured, remained relatively contained and considerably below rates recorded during 1973-1975 (see table 14).

In 1977 the main inflationary pressures came from the transportation, education, housing, and clothing components of the index. Unlike previous years, the highly weighted food group had a restraining influence. Price increases for fuel and light, as well as medical supplies, were also relatively restrained in 1977.

Increases in transportation costs were mainly attributable to the increased cost of motor cars and parts. Education costs rose sharply because of higher examination fees, tuition and stationary. While the increase in the housing index was somewhat greater than the overall price increase for the year, it appears to have considerably understated cost pressures. The price of houses in 1977 continued to soar; crude estimates based on observed price trends have placed the actual rise in housing prices at 150-200%.

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<sup>6/</sup> Actually, Trinidad is a net creditor with international banks: at the end of September 1977, net deposits totalled 550 million dollars (including short-term obligations), Bank for International Settlements, table 7 of Press Review, N° 27, 8 February 1978.



Table 14

TRINIDAD AND TOBAGO: EVOLUTION OF DOMESTIC PRICES

(Percentage change)

	1972	1973	1974	1975	1976	1977
Annual average	9.3	14.8	22.0	17.0	10.5	11.8
December - December	8.0	24.4	18.6	13.4	12.0	11.4

Source: International Monetary Fund, International Financial Statistics.

An important factor behind inflationary trends has been supply bottlenecks in the face of the demand generated by an oil wealthy economy. Demand in turn has been fuelled by a high degree of monetary liquidity, growing fiscal outlays and wage settlements generated by a very organized labour market. But perhaps the most pervasive pressure on domestic prices in recent years has come from the external sector. Trinidad, with exports and imports equivalent to 96% and 86% of GDP, respectively, is clearly very vulnerable to imported inflation. On the one hand, much of the foreign exchange generated by record petroleum prices has inevitably been monetized, notwithstanding a degree of restraint of the Government, which is the major recipient of such revenue. On the other hand, increases in import prices are quickly incorporated in the domestic price structure. Evidence of the pulling power of the external sector is presented in figure 1, which shows that over the last few years consumer prices have indeed paralleled movements in trade prices.

In order to combat the inflationary problem, the Government has employed various measures.

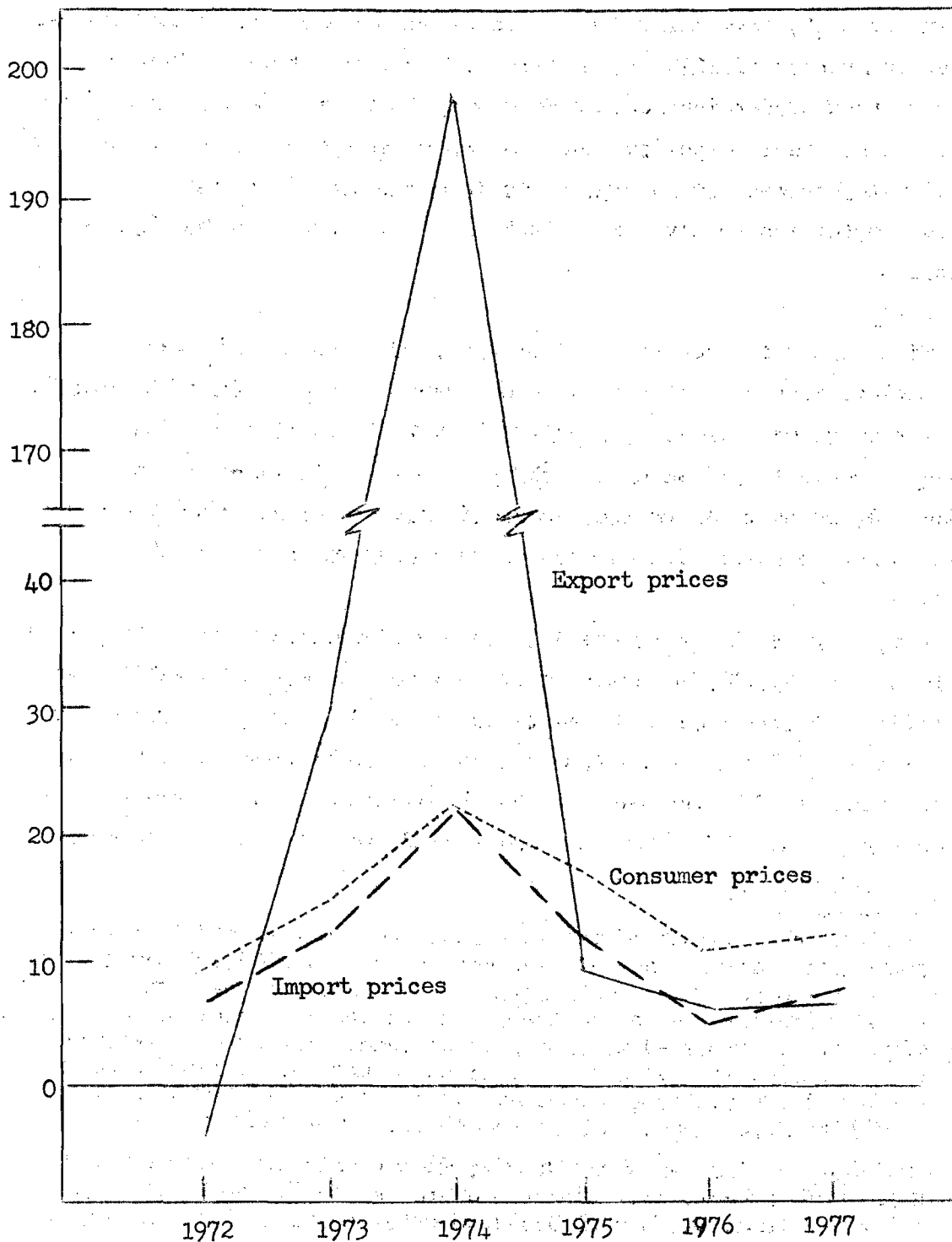
As a short-term expedient, an extensive net of price controls and subsidies (at an estimated cost of TT\$ 100 million) has been introduced, with special attention given to the cost of food and petroleum products. Also in an attempt to hold down prices, sales tax reductions have been effected, personal income taxes lowered, and tax allowances increased. Of course it is difficult to assess the terminal impact of the tax measures, since in freeing income they may, in the end, put more pressures on prices.

Efforts have also been made to increase the local supply of goods. Incentives, therefore, have been introduced to encourage domestic production, particularly in the area of agriculture. Additionally, an increased volume of imports has been facilitated through manipulation of tariffs.

Figure 1

TRINIDAD AND TOBAGO: ANNUAL AVERAGE VARIATION IN CONSUMER PRICES,  
EXPORT AND IMPORT PRICES

(Per cent)



/Since the

Since the pegging of the Trinidad dollar to the US dollar at the rate of 2.40:1 in May 1976, the exchange rate has not been an active policy instrument in the fight against inflation.<sup>7/</sup> However, while the nominal rate has not been adjusted, there has been a passive adjustment due to the differential rates of inflation in Trinidad and the United States. As seen in table 15, the real value of the exchange rate declined by 14% between the second quarter of 1976 and the end of 1977, thereby lowering the effective cost of foreign goods and presumably stimulating a larger import volume. A more active policy involving outright appreciation of the nominal rate has been avoided probably in deference to exporters and official objectives to diversify the base of the country's foreign exchange earnings.

(b) Wages

With regard to the evolution of wages, data on the minimum wage for manual workers can be indicative of trends. As seen in table 16, the index for these wages rose by nearly 12% in 1977, roughly on a par with the average rate of inflation for the year. The rise in wages was considerably below that for the two previous years, suggesting that wage adjustments were moving into line with the lower rates of domestic inflation.

Looking over the longer term, data reveal that minimum wages for all industries rose by 96% in nominal terms during the period 1974-1977 (see table 15). Focusing on individual sectors, the increases were 142% for construction, 113% for sugar manufacturing, 111% for petroleum, 98% for manufacturing and 97% for Government. When viewed against the average rise in consumer prices of 76% for the same period, these data suggest substantial gains in real wages.<sup>8/</sup>

<sup>7/</sup> Prior to the pegging of the local currency to the US dollar, the pound sterling was the benchmark currency. In 1975, when sterling began to depreciate heavily against the dollar of the United States - the principal trading partner - it dragged the Trinidad dollar down with it. This proved to be highly inflationary not only because of increased import costs, but also because more local currency had to be issued for dollar-denominated petroleum exports. Thus, the authorities felt obliged to break their link with sterling.

<sup>8/</sup> One must be cautious about drawing firm conclusions concerning the degree of increase in real wages given the narrow coverage of the index and the fact that it is based on wages prevailing in only two selected months of each year.

Table 15  
TRINIDAD AND TOBAGO: EVOLUTION OF EXCHANGE RATE AND PRICES

Period (aver- ages)	Exchange rate (Trinidad and Tobago dollars per US dollars) (1)	Indexes				
		Exchange rate (2)	Retail price in Trinidad and Tobago (3)	Wholesale prices in the United States (4)	Relative prices (5)=(3)/(4)	Real exchange rate (6)=(1)/(5)
1970	2.00	100.0	100.0	100.0	100.0	100.0
1971	1.96	98.0	103.5	103.3	100.0	98.0
1972	1.92	96.0	113.1	107.9	104.8	91.6
1973	1.96	98.0	129.8	122.0	106.4	92.1
1974	2.05	102.5	158.5	145.0	109.3	93.8
<u>1975</u>	<u>2.17</u>	<u>108.5</u>	<u>185.4</u>	<u>158.4</u>	<u>117.1</u>	<u>92.7</u>
I	2.01	100.5	179.3	155.1	115.6	86.9
II	2.07	103.5	182.9	156.7	116.7	88.7
III	2.26	113.0	187.3	160.1	117.0	96.6
IV	2.35	117.5	141.3	161.8	118.2	99.4
<u>1976</u>	<u>2.44</u>	<u>122.0</u>	<u>204.7</u>	<u>165.8</u>	<u>123.5</u>	<u>98.9</u>
I	2.40	120.0	147.7	162.6	121.6	98.7
II	2.55	127.5	200.5	164.9	121.6	104.9
III	2.40	120.0	206.2	166.9	123.5	97.2
IV	2.40	120.0	214.1	168.5	127.1	94.4
<u>1977</u>	<u>2.40</u>	<u>120.0</u>	<u>228.8</u>	<u>175.9</u>	<u>130.1</u>	<u>92.2</u>
I	2.40	120.0	220.3	172.1	128.0	93.8
II	2.40	120.0	225.6	176.3	128.0	93.8
III	2.40	120.0	231.2	176.5	131.0	91.6
IV	2.40	120.0	237.8	178.6	133.1	90.2

Source: International Monetary Fund, International Financial Statistics.

Table 16

TRINIDAD AND TOBAGO: EVOLUTION OF INDEX OF MINIMUM WAGE  
FOR MANUAL WORKERS IN ALL INDUSTRIES<sup>a/</sup>

	Index (February 1956=100)	Percentage change
1972	202.7	12.9
1973	327.2	10.4
1974	366.3	11.9
1975	470.8	28.5
1976	572.9	21.7
1977	640.2	11.7

Source: Central Statistical Office, Quarterly Economic Report, July-September 1977; and data supplied to CEPAL.

a/ Average of May and November for manual workers in all industries.

/A significant

A significant development in the area of wage settlements relates to the agreement concluded between the Public Service Association and the Government in mid-1977. Under the agreement there has been a significant departure from previous practice in that the time frame covers 4 years. Given opposition to 4-year agreements by major unions, 1978 could be a very lively year with regard to industrial relations and wage agreements.

## 6. Monetary and fiscal policy

### (a) Monetary policy

Trinidad has experienced a rather robust expansion of its domestic money supply since the advent of high petroleum prices. This is highlighted by the fact that at the end of 1977 the means of repayment was 250% higher than it was at the end of 1973; even discounting the effects of inflation, the supply of money doubled over the above period.

In 1977 the nominal rate of money expansion was restrained relative to rates of growth of recent years (see table 17). Actually, there has been a progressive deceleration in the rate of growth since mid-1976. As seen in figure 2, the rate of change in domestic money supply over 12 months declined from a high of over 60% in mid-1976, to a low of 14% by October 1977. In the last two months of the year, there was a noticeable acceleration of growth, but expansion nevertheless remained well below rates recorded in 1975-1976.

The principal source of monetary expansion has been a very high rate of accumulation of foreign assets in the monetary system as a result of the country's strong balance-of-payments position. In 1974-1975 net foreign assets increased by over 3,000%; this was followed by increases of 40% and 46% in 1976 and 1977, respectively. It is worth noting that in the first semester of 1977 the rate of growth of the stock of foreign assets continued the progressive deceleration that had been taking place since 1975; however, in the second semester the trend was reversed by a sustained rise in the rate of growth and this had a corresponding influence on money supply (see figure 2).

Table 17  
TRINIDAD AND TOBAGO: MONETARY POSITION

	Balance at en of				Growth rates <sup>b/</sup>		
	1974	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
1. <u>Money</u>	<u>290</u>	<u>430</u>	<u>630</u>	<u>790</u>	<u>48.4</u>	<u>46.5</u>	<u>25.3</u>
Currency outside banks	99	138	177	231	40.3	28.2	30.3
Demand deposits	191	287	450	540	49.8	50.2	25.4
2. <u>Factors of expansion</u>	<u>1 167</u>	<u>1 599</u>	<u>2 168</u>	<u>2 623</u>	<u>37.0</u>	<u>35.6</u>	<u>21.0</u>
Foreign assets (net)	765	1 733	2 426	3 536	126.5	40.0	45.8
Domestic credit	402	-134	-256	-913	...	...	...
Government (net)	-330	-1 084	-1 549	-2 711	...	...	...
Official entities	65	63	44	38	-2.9	-29.9	-14.3
Private sector	665	888	1 245	1 760	33.6	40.5	41.2
3. <u>Factors of absorption</u>	<u>878</u>	<u>1 169</u>	<u>1 537</u>	<u>1 834</u>	<u>33.2</u>	<u>31.5</u>	<u>19.2</u>
Quasi-money							
(saving and time deposits)	817	1 021	1 314	1 661	24.5	28.7	26.4
Other items (net)	61	148	223	173	44.2	51.0	-22.6

Source: International Monetary Fund, International Financial Statistics.

<sup>a/</sup> Preliminary figures.

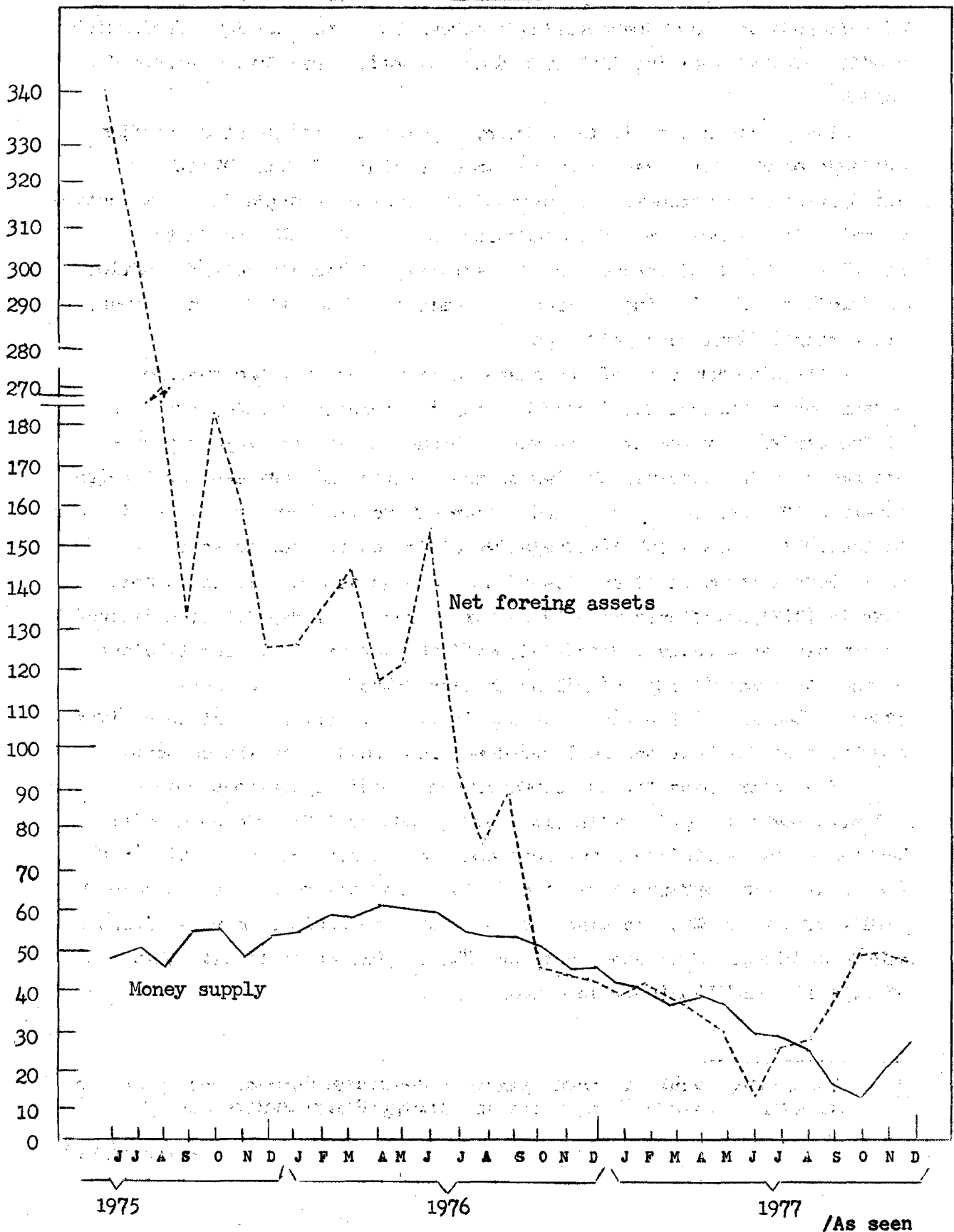
<sup>b/</sup> Based on unrounded data.



Figure 2

TRINIDAD AND TOBAGO: 12 - MONTH CHANGES IN  
MONEY SUPPLY AND NET FOREIGN ASSETS

(Per cent)



As seen in table 17, the expansionary effects of a growing stock of foreign assets have been assuaged somewhat by the behaviour of domestic credit. The restraining influence stems directly from Government credit policy.

The public sector is the country's principal recipient of foreign exchange because of taxes on petroleum operations. Since 1974 the authorities have attempted to "sterilize" foreign exchange income by opting to maintain a large part of its earnings on deposit with the Central Bank.<sup>9/</sup> Thus, the Government has temporarily withheld a certain portion of Trinidad's foreign income from the domestic financial stream, thereby mitigating inflationary pressures.

A precise analysis of the sterilization process is not possible because of the unavailability of data on the foreign currency accounts of the central Government. However, a broad idea of the impact of the programme can be acquired by viewing the relationship between net foreign assets of the monetary system and net credit to the Government. As is seen in table 17, in 1974-1976 the negative claims on the public sector were equivalent to between 40 and 60% of net foreign assets. It is notable that in 1977 the efforts to hold back resources from the domestic financial system were apparently intensified, with the negative net credit balance of the Government being equivalent to over 75% of total net foreign assets. The intensification of restraint is reflective of the authorities growing concern about the level of domestic liquidity in the economy.

The restraining effects of Government credit operations have been offset somewhat by private credit. By the end of 1977, the commercial banking system's claims on business and individuals was over 200% larger than claims outstanding at the end of 1973; in real terms the increase in credit was about 70%. Looking just at 1977, the nominal increase in bank claims on the private sector rose by 41%, roughly on a par with the rate of expansion in 1976 (see table 17).

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<sup>9/</sup> The Central Bank, in turn, places these funds abroad, mostly in the form of foreign bank deposits and foreign Government securities.

With regard to the distribution of private credit since the oil boom, construction has increased its share, as has petroleum. Agriculture's share on the other hand, has shown little change, while the share allocated to manufacturing and distribution has fallen. Partial data for 1977 suggest vigorous lending to the manufacturing sector and more lending to distributive trade. The share of the construction sector showed a decline with respect to the similar period of 1976, reflecting an absolute reduction in commercial banks' claims on the sector (see table 18).

(b) Fiscal policy

Turning to the fiscal accounts, there was clear evidence in 1977 of greater restraint on the part of the Government: while revenues expanded by 44%, expenditures rose by only 5%, which represents a decline in real terms. In contrast, average revenue gains of nearly 50% per annum in 1974-1976, underpinned expenditure increases of roughly 40% per annum.

As seen in table 19, the bulk of the restraint was borne by the capital account, which recorded a 4% decline in outlays compared with an average increase of 60% per annum in 1974-1976. The fall in capital outlays was due to reduced public debt charges. But there also was a noticeable slowdown in growth of outlays for real investment, possibly reflecting delays in the implementation of industrial projects. As for recurrent expenditures, they rose by only 10% in 1977, one-third of the average annual growth rate recorded for 1974-1976. Taking into account inflation, there was no real rise in current outlays in 1977.

In an effort to insulate the economy from the full impact of high petroleum prices, as well as save resources for the national development programme, the Government has, since 1974, been running sizable fiscal surpluses. In 1977 there was a record surplus of TT\$ 1.2 billion, equivalent to 71% of total fiscal expenditures (see table 19).

Table 18

TRINIDAD AND TOBAGO: DISTRIBUTION OF COMMERCIAL BANK LOANS AND ADVANCES

(Percentage)

	1973	1974	1975	1976	January-September	
					1976	1977
Manufacturing	18.1	18.3	16.0	14.6	14.4	19.8
Construction	2.9	3.0	3.5	7.2	5.8	3.4
Agriculture	2.3	2.7	2.3	2.1	2.2	2.2
Petroleum and refining	1.9	1.7	2.9	2.9	3.1	1.7
Other mining	-	1.1	0.6	0.5	0.5	0.8
Distributive trade	16.8	15.5	13.2	11.1	12.7	13.8
Other <u>a/</u>	58.0	57.7	61.5	61.6	61.3	58.3
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Statistical Office, Quarterly Report, July-September 1977; and data supplied to CEPAL.

a/ Includes personal loans.

Table 19  
TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE  
(Millions of Trinidad and Tobago dollars)

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
1. Current income	1 398	1 628	1 937	2 780	16.5	19.0	43.5
Income tax	7	1 182	1 374	1 772	19.8	16.2	29.0
Other taxes	411	363	473	543	...	30.3	14.8
Interest and income		83	90	465	...	8.4	416.7
2. Current expenditures	624	780	952	1 049	25.0	22.1	10.2
General services	150	216	219	264	44.0	1.4	20.5
Community services	33	44	52	57	33.3	18.2	9.6
Social services	236	285	385	425	20.8	35.1	10.4
Education	(119)	(130)	(179)	(205)	9.2	37.7	14.5
Health	(66)	(81)	(105)	(112)	22.7	29.6	6.7
Housing	(2)	(3)	(4)	(7)	50.0	33.3	75.0
Economic services	96	110	148	161	14.6	34.5	8.8
Agricultural	(36)	(38)	(45)	(53)	5.6	18.4	17.8
Transport and communications	(19)	(20)	(27)	(29)	5.3	35.0	7.4
Other	109	125	148	142	14.7	18.4	-4.1
3. Fiscal savings (1-2)	774	848	985	1 731	9.6	16.2	75.7
4. Capital expenditures	277	404	599	574	45.8	48.3	-4.2
Real investment	154	368	504	557	139.0	37.0	10.5
Public debt charges	123	36	95	17	-70.7	63.9	-82.1
5. Total expenditures (2+4)	901	1 184	1 551	1 623	31.4	31.0	4.6
6. Surplus (1-5)	497	444	386	1 157	-10.7	-13.1	199.7
7. Financing							
Fiscal development funds	-402	-701	-518	-890	...	...	...
Other	-95	257	132	-267	...	...	...

Source: Ministry of Finance, Budget Speech, 1977, and Review of Fiscal Measures, 1977.

a/ Preliminary figures.

/URUGUAY

## URUGUAY

### 1. The overall picture

In 1977 the Uruguayan economy continued to expand for the fifth year running, recording an overall growth rate of 3.5% and a per capita rate of approximately 3%. The increase in gross income was much the same as that of the domestic product, since the terms of trade remained stable from 1976 to 1977. At the same time, there was an upswing in inflation, particularly in the first half of the year, with a consequent increase in the deficit on the balance-of-payments current account (see table 1).

Factors contributing to the higher growth rate were the more rapid expansion of the manufacturing industry, stimulated by the development of some branches producing non-traditional exports, and the notable recovery of public and private construction. Agricultural production, on the other hand, declined owing to a decrease in several important crops. The service sectors as a whole expanded at a rate comparable with that of the previous year.

The evolution of total exports did not contribute to the growth, since the drop in volume of traditional exports, especially meat, offset the growth of sales abroad of non-traditional products. There was an appreciable increase, however, in gross fixed investment, which helped to stimulate domestic demand.

The growth of imports was more rapid than that of exports, with the result that from 1976 to 1977 the balance-of-payments current account deficit rose by 50%. The net inflow of capital also rose appreciably, increasing the country's net international reserves by an amount similar to that of the previous year (120 million dollars).

The consumer price index, which had risen by 40% during 1976, went up by 57% in 1977. In the second half of the year, however, the monthly inflation rate decreased with the solution of certain food supply problems which had arisen during the first six months, and the slowing down of the expansion of the means of payments, a task which was eased for the monetary authority by the reduction of the fiscal deficit. At the same time, there was a drop of around 12% from 1976 to 1977 in the average real wage.

Table 1  
URUGUAY: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 562	2 581	2 663	2 781	2 854	2 953
Population (millions)	2.84	2.84	2.84	2.84	2.85	2.87
Per capita gross domestic product (US dollars at 1970 prices)	903	910	939	979	1 000	1 029
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	-3.3	0.8	3.2	4.4	2.6	3.5
Per capita gross domestic product	-3.4	0.8	3.2	4.4	2.2	2.9
Gross income <sup>b/</sup>	-2.6	4.0	-1.9	2.2	0.9	3.6
Terms of trade	17.0	31.4	-47.2	-19.6	-4.5	0.3
Current value of exports of goods and services	23.0	31.8	15.9	4.6	40.0	10.2
Current value of imports of goods and services	-7.8	31.1	60.0	9.4	9.8	16.3
Consumer price index						
December to December	94.7	77.5	107.2	66.8	39.9	57.3
Annual average variation	76.5	96.0	77.2	81.4	50.6	58.2
Money	57.0	75.6	62.9	53.5	61.2	40.4
Wages and salaries <sup>c/</sup>	44.3	96.0	74.6	66.4	42.0	39.0
Current income of government	62.5	121.0	58.8	67.6	74.7	70.6
Total expenditure of government	37.7	103.9	94.2	70.8	51.8	55.2
Fiscal deficit/total expenditure of government <sup>d/</sup>	16.0	8.9	25.5	26.9	15.9	7.6
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	31	43	-112	-145	-9	-53
Balance on current account	7	18	-155	-217	-82	-121
Variation in net international reserves	13	26	-77	-72	108	120

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Variation of average nominal wage between annual averages.

<sup>d/</sup> Percentage.

## 2. Recent economic trends

### (a) Total supply and demand

As noted above, the Uruguayan economy maintained a fairly satisfactory growth rate (3.5%) in 1977, in line with the average recorded in the period 1974-1976. In contrast to what occurred in 1976, the chief factor promoting overall demand was the expansion of domestic demand, which rose by over 4% (see table 2). On the other hand, exports of goods and services, which had risen considerably in the years 1974-1976, declined slightly, for the reasons already stated.

The growth in gross fixed income (13%) was the chief dynamic element in the evolution of domestic demand. Capital formation in construction and in machinery and equipment rose equally. A positive influence in the first case was the execution of some public projects of infrastructure, mainly in the energy sector, and increased activity in private construction in the international tourists zone, while in the second case, a major factor was the import of machinery by the non-traditional exporting industries, the inclusion of fishing vessels, the purchase of a giant oil tanker and the acquisition of equipment for the State railway and energy enterprises.

The preliminary estimate for total consumption indicates a growth of 2.6% in 1977, which should have enabled it to recover its absolute level of 1975, after the contraction recorded in 1976. It is not easy, however, to reconcile this trend with the data on the decline in average real wages to which reference will be made further on.

In the case of overall supply, its expansion was slightly higher than that of the gross domestic product, owing to the fact that as in 1976, imports of goods and services increased by around 5%.

### (b) Sectoral trends

The product of the goods-producing sectors grew by 5.3%, while in the service sectors as a whole the growth is estimated at 2.3%. In 1976 the comparable variations were 2.4% and 2.5% respectively (see table 3).



Table 2

URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<b>Total supply</b>	<b>705 963</b>	<b>725 284</b>	<b>751 686</b>	<b>112.5</b>	<b>111.5</b>	<b>3.9</b>	<b>2.7</b>	<b>3.6</b>
Gross domestic product at market prices	634 839	651 333	674 142	100.0	100.0	4.4	2.6	3.5
Imports of goods and services <sup>b/</sup>	71 124	73 951	77 544	12.5	11.5	-	4.0	4.9
<b>Total demand</b>	<b>705 963</b>	<b>725 284</b>	<b>751 686</b>	<b>112.5</b>	<b>111.5</b>	<b>3.9</b>	<b>2.7</b>	<b>3.6</b>
<b>Domestic demand</b>	<b>627 237</b>	<b>616 718</b>	<b>643 787</b>	<b>100.8</b>	<b>95.5</b>	<b>2.4</b>	<b>-1.7</b>	<b>4.4</b>
Gross domestic investment	74 796	79 127	92 168	11.4	13.7	24.7	5.8	16.5
Gross fixed investment	72 818	79 594	89 719	11.2	13.3	36.8	9.3	12.7
Construction	50 200	47 149	53 410	6.6	7.9	23.3	-6.1	13.3
Machinery and equipment	22 618	32 445	36 309	4.6	5.4	80.5	43.4	11.9
Changes in stocks	1 978	-467	2 448	0.2	0.4	...	...	...
Total consumption	552 441	537 591	551 619	89.3	81.8	...	-2.7	2.6
General government	90 990	94 897	...	15.0	...	3.0	4.3	...
Private	461 451	442 694	...	74.3	...	-0.6	-4.1	...
<b>Exports of goods and services <sup>b/</sup></b>	<b>78 726</b>	<b>108 566</b>	<b>107 899</b>	<b>11.7</b>	<b>16.0</b>	<b>17.9</b>	<b>37.9</b>	<b>-0.6</b>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay;  
1977: CEPAL estimates on the basis of official data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by CEPAL for the purpose.

Table 3

URUGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	64 299	66 504	65 639	12.6	11.2	3.1	3.4	-1.3
Mining	8 573	7 301	8 238	1.2	1.4	-10.0	-14.8	12.8
Manufacturing	131 104	137 339	146 142	23.0	25.0	7.5	4.8	6.4
Construction	25 521	23 855	27 338	3.8	4.7	31.6	-6.5	14.6
<u>Subtotal goods</u>	<u>229 497</u>	<u>234 999</u>	<u>247 357</u>	<u>40.6</u>	<u>42.3</u>	<u>7.6</u>	<u>2.4</u>	<u>5.3</u>
Electricity, gas and water	8 829	9 310	9 818	1.5	1.7	11.1	5.4	5.5
Transport, storage and communications	50 660	52 520	54 707	8.6	9.3	4.1	3.7	4.2
<u>Subtotal basic services</u>	<u>59 488</u>	<u>61 831</u>	<u>64 525</u>	<u>10.1</u>	<u>11.0</u>	<u>5.1</u>	<u>3.9</u>	<u>4.4</u>
Commerce, financial institutions and insurance	92 535	98 254	103 266	17.2	17.6	7.3	6.2	5.1
Real estate <sup>b/</sup>	27 914	27 914	27 914	5.2	4.8	-0.3	-	-
Community, social and personal services <sup>c/</sup>	142 674	142 527	142 527	26.9	24.3	-3.0	-0.1	-
<u>Subtotal other services</u>	<u>263 123</u>	<u>268 695</u>	<u>273 708</u>	<u>49.3</u>	<u>46.7</u>	<u>0.7</u>	<u>2.1</u>	<u>1.9</u>
<u>Total gross domestic product <sup>d/</sup></u>	<u>526 246</u>	<u>567 033</u>	<u>586 766</u>	<u>100.0</u>	<u>100.0</u>	<u>4.4</u>	<u>2.6</u>	<u>3.5</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay;

1977: CEPAL estimates on the basis of data from the same source.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Refers to ownership of dwellings only.

<sup>c/</sup> Also includes restaurants, hotels and business services.

<sup>d/</sup> As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

/The chief

The chief factors influencing the performance of the goods-producing sectors were the increased growth rate in the manufacturing industry and the notable recovery of construction. In the former case, the growing sales abroad of non-traditional products continued to have a positive effect. As regards construction, its growth of almost 15% resulted from greater activity in the public sector (22%), especially the favourable impact of the works at Salto Grande and Palmar, and also in the private sector (10%). In contrast, there was a decline in agricultural production after two years of satisfactory growth.

In the case of the different service sectors, it is estimated that there was some growth in basic services, especially transport, storage and communications, whereas expansion was slower than in the previous year in the sector of commerce, financial establishments and insurance.

(i) Agriculture. In 1977 agricultural production dropped by almost 2%, in consequence of a fall of 6.5% in the crop-farming subsector, whereas livestock production increased by 1.7% (see table 4).

Adverse weather conditions, especially the excess of rain, had a negative effect on the production of various crops, causing a drastic fall in maize (43%), linseed (25%), sunflower (55%) and sugar beet (28%). This occurred despite the increase in the area sown to these crops, so that the decrease in yields per hectare was even greater than that observed in production. At the same time, there was a moderate increase in the crops of wheat and rice and a greater increase in barley, soya and sorghum.

Among the more important livestock products, such as beef and wool, production rose by 7% and 3% respectively. In both cases, the good grazing conditions had a favourable effect on the yields of cattle and wool production.

(ii) Manufacturing. The manufacturing output rose by 6.4%, a markedly higher rate than that of the previous year but much the same as that of 1975. A study of the detailed evolution of the production index indicates that in 1977, as in 1975-1976, there was a persistent and increasingly rapid growth in the export industries (see table 5).

Table 4  
URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<u>Agricultural production (1961 = 100)</u>	106.3	108.3	111.8	109.7	1.9	3.2	-1.9
Crop farming <sup>b/</sup>	134.3	140.2	150.0	140.3	4.4	7.0	-6.5
Stock-raising	93.4	93.7	94.3	95.9	0.3	0.7	1.7
<u>Production of some important crops</u> (Thousands of tons) <sup>c/</sup>							
Wheat	297	327	456	505	77.4	-13.5	10.8
Maize	225	157	210	121	-30.2	33.9	-42.5
Rice	158	189	217	228	19.4	14.8	5.5
Linseed	26	39	62	46	49.4	57.0	-24.8
Sunflower	48	51	77	34	6.2	49.9	-55.4
Sugar beet	429	573	833	597	33.6	45.3	-28.4
<u>Indicators of stock-raising production</u>							
Number of cattle (thousands of head) <sup>d/</sup>	10 961	11 362	10 635	10 364	3.7	-6.4	-2.5
Number of animals slaughtered (thousands of head)	1 573	1 755	2 129	1 709	11.6	21.3	-19.7
Slaughtering coefficient (percentage)	14.4	15.4	20.0	16.5	-	-	-

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Agriculture and Fisheries.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Including plantations and permanent pastures.

<sup>c/</sup> Crop year.

<sup>d/</sup> At 30 June of each year.

Table 5  
URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION  
(1961 = 100)

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<u>Total</u>	<u>120.7</u>	<u>128.8</u>	<u>134.0</u>	<u>142.6</u>	<u>6.7</u>	<u>4.0</u>	<u>6.4</u>
Food	131.4	142.0	157.6	152.1	8.0	11.0	-3.5
Beverages	134.2	134.2	121.2	128.6	-	-9.7	6.1
Tobacco	146.7	148.2	148.2	130.9	1.0	-	-11.7
Textiles	88.8	108.9	107.1	122.1	22.6	-1.6	14.0
Footwear and clothing	90.4	82.6	86.7	94.2	-8.8	5.1	8.7
Paper and paper products	216.7	200.0	210.6	239.7	-7.6	5.3	13.8
Printing and publishing	108.9	108.9	109.8	122.9	-0.2	0.5	11.9
Tanneries and leather industries	...	...	...	...	22.5	30.0	28.4
Rubber products	104.6	110.2	87.9	102.9	5.0	-20.5	17.1
Chemical products	144.6	128.0	128.8	138.2	-11.5	0.5	7.3
Petroleum products	118.4	130.0	124.2	117.1	9.8	-4.5	-5.7
Non-metallic mineral products	209.1	205.6	212.7	240.8	4.7	15.7	13.2
Metal products	61.3	58.0	65.5	80.2	-5.1	12.7	22.5
Electrical machinery	50.5	53.2	64.4	74.3	5.4	20.6	15.3
Transport equipment	...	...	...	...	-0.9	1.1	27.4
Other manufacturing industries	...	...	...	...	10.1	1.5	15.0

Source: Central Bank of Uruguay.

<sup>a/</sup> Preliminary figures.

/In the

In the food industries activity declined (3.5%), owing to a drop in the production of frozen goods, edible oils, coffee and milk products, which was not compensated by increases in the other sections of the industry. This performance was influenced by a reduction in supply of certain agricultural inputs and also the scant demand for these products. The production of beverages, although it rose by 6%, did not fully recover from its decline in 1976, while tobacco production dropped by 12%.

Textile production increased by 14%, owing to expansion in the spinning and weaving of wool, cotton and synthetic fibres. In 1977 conditions were favourable for the external demand of these products, especially through the tying of the exports of combed woollen yarns and woollen clothing to the United States market and through the renewed fashion for wearing woollen garments.

In footwear and clothing the growth rate reached 9%, an achievement largely due to the manufacture of woven clothing and leather garments. The leather-garment subsector continued to expand as a result of external demand, but, as the installed capacity of the factories had now reached its limit, it was not possible to supply the total demand. At the same time, the tanneries and leather industries increased their activity by 28%, basically as a result of the increment in sales to the factories exporting processed goods (stamped leather work, footwear and leather garments).

The paper and paper-products industry grew by 14%, mainly owing to the recovery of domestic demand and, indirectly, to the growing volume of non-traditional exports which produced an increased demand for cardboard containers. Expansion in the rubber industry reached 17%, as a result of increased exports of rubber products to Argentina and Brazil.

There was also a marked growth in the manufacture of machinery and electrical appliances owing to an increase in their sales abroad. A similar growth was achieved by the producers of plastic articles, in consequence of the large volume of exports to the Argentine and Brazilian markets.

Finally, the expansion of the non-metallic industries was due to the increase in construction, while the increment of 27% in the equipment branch of transport was basically due to the greater financing facilities which were becoming available for the marketing of vehicles.

### 3. The external sector

#### (a) Introduction

The greater increase in imports of goods compared with exports gave rise to a deficit in the balance of goods of 43 million dollars in 1977 and at the same time increased the negative balance on the current account from 82 million in 1976 to 121 million in 1977. It is estimated, however, that in the last year the position of the country's net international reserves improved by 120 million dollars, since the net inflow of non-compensatory capital greatly exceeded the deficit on current account (see table 6).

The exchange policy continued operating on the basis of a system of periodic adjustments of the nominal value of foreign currency. Between the end of 1976 and the end of 1977, the value of the dollar in national currency rose by 35%, that is, appreciably less than wholesale prices (45%) 1/ with the result that the real exchange index dropped by approximately 7% (see table 7).

Consequently, there were no exchange incentives to export, in addition to which, in the second quarter of the year, there was a further reduction in the rates of reimbursement for non-traditional exports (20%). This type of export increased less than in 1976, while traditional exports remained static owing to a sharp fall in the volume of meat sold abroad.

In contrast, import growth was stimulated by the exchange policy itself - within a framework of greater economic activity - and by the adoption of certain complementary measures which intensified the trend, observable for some years, towards a gradual liberalization of imports and reduction of customs protection. The two most important of these measures were, on the one hand, that which reduced the customs tariffs from 75%, 120%, 150% and 200% to 65%, 90%, 120% and 150% 2/ respectively and, on the other, that which regulated the common customs tariff, which will be applied from 1978 to merchandise imports in place of the various customs tariffs and additional taxes currently in force.

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1/ The difference was even greater in respect of consumer price increases (57%).

2/ At the same time a minimum charge of 10% was introduced and the existing exceptions cancelled.

Table 6  
URUGUAY: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>Current account</b>						
Exports of goods and services	311	410	475	497	696	767
Goods FOB	242	328	381	385	565	607
Services	69	82	94	112	131	160
Transport	9	12	19	21	28	35
Travel	45	43	45	57	68	80
Imports of goods and services	280	367	587	642	705	820
Goods FOB	179	249	437	496	537	650
Services	101	118	150	146	168	170
Transport	42	47	76	65	78	85
Travel	40	44	44	48	60	55
Net payments of profits and interest on foreign capital	-24	-25	-43	-71	-72	-67
Profits	-	-	-4	-4	-5	-6
Interest	-24	-25	-39	-67	-67	-61
Net private transfer payments	-	-	-1	-1	-1	-1
Balance on current account	7	18	-155	-217	-82	-121
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	-7	-18	155	217	82	121
(a) Net external non-compensatory capital	64	4	121	123	113	241
Direct investment						
Long-and medium-term loans	48	28	45	185	130	
Amortization payments	-15	-43	-21	-38	-48	
Short-term liabilities	19	-	75	-38	22	
Official transfer payments	12	19	22	14	9	
(b) Domestic non-compensatory capital or assets	-6	34	24	28	88	-120
(c) Errors and omissions	-60	-30	-67	-6	-10	
(d) Allocation of SDRs	8					
(e) Net compensatory financing						
(minus sign signifies an increase)	-13	-26	77	72	-109	
Balance-of-payments loans, trade arrears						-137
IMF loans, and other liabilities of the monetary authorities	62	68	136	142	77	
Amortization payments	-56	-63	-57	-90	-85	
Variation in gross international reserves						
(minus sign signifies an increase)	-20	-31	-2	20	-101	
Foreign exchange reserves						...
(minus sign signifies an increase)	-37	-27	-	7	-99	
Gold reserves						
(minus sign signifies an increase)	26				-	
SDRs						
(minus sign signifies an increase)	-9	-4	-2	13	-2	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund, Balance of Payments Yearbook, vol. 28; 1977: CEPAL, on the basis of data supplied by the Central Bank of Uruguay.

<sup>a/</sup> Preliminary figures.

/Table 7



Table 7

URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate <sup>a/</sup> (pesos per US dollar) (1)	Index of exchange rate (2)	Wholesale price index (3)	Index of real exchange rate (4)=(2)/(3)
1973	0.87	100.0	100.0	100.0
1974	1.20	156.2	178.7	76.2
1975				
Average	2.26	261.0	308.0	84.4
December	2.66	307.5	388.2	79.2
1976				
Average	3.34	385.7	463.8	83.2
June	3.23	373.0	424.4	87.9
December	3.98	459.7	563.3	81.6
1977				
Average	4.68	540.5	697.2	77.5
June	4.62	533.6	674.9	79.1
December	5.39	622.5	815.8	76.3

Source: Central Bank of Uruguay.

<sup>a/</sup> Annual or monthly average of commercial exchange rate.

(b) Trade in goods

The value of exports of goods increased by 7% in 1977, reaching a total of 607 million dollars. There was an increment of 10% in the unit value and, in contrast, a drop of around 3% in the volume exported, thus interrupting the rapid growth sustained during 1974-1976 (see table 8).

Non-traditional exports rose by 13% as a result of a parallel increase in their volume, since it is estimated that their average price remained relatively stable. Although a large number of products shared in the expansion, the chief increases, around 30% or more, were due to the aforementioned leather manufactures, textile articles and tyres. According to available data, the international prices for these same products did not develop favourably. The rapid and sustained evolution of non-traditional exports during the period 1974-1977 increased their share in total exports from 25% in 1973 to 57% in 1977, their value in this last year amounting to 345 million dollars (see table 9).

On the other hand, the value of traditional exports showed practically no change from 1976 to 1977, remaining in the region of 260 million dollars. It is estimated, however, that in physical volume there was an average fall of over 15%, since exports of carcase meat dropped 35% in the face of difficulties of access to international markets and the requirement of domestic supply during some months of the year. In 1976 the record figure of 185 thousand tons had been exported. In the meantime, the average unit value of traditional products increased by around 20%, owing to the rise in international prices for meat and wool of 28% and 18% respectively.

The value of imports of goods rose by 21% in 1977 as a result of parallel increases (10%) in prices and physical volume. In dollars at current prices, the country's imports rose from 180 million dollars in 1972 to 650 million in 1977, largely reflecting the heavy impact of world inflation on Uruguay.

Table 8  
URUGUAY: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
	<u>Growth rates</u>					
Exports of goods (FOB)						
Value	23.3	35.4	16.4	0.9	46.8	7.4
Volume	-5.3	-3.9	19.0	16.8	45.0	-2.7
Unit value	30.2	40.9	-2.2	-13.6	1.2	10.4
Imports of goods (FOB)						
Value	-11.7	39.1	75.7	13.5	8.2	21.1
Volume	-20.7	29.8	-5.6	5.6	2.1	10.1
Unit value	11.4	7.2	85.3	7.5	6.0	10.0
Terms of trade	17.0	31.4	-47.2	-19.6	-4.5	0.3
	<u>Indexes (1970 = 100)</u>					
Terms of trade	116.5	153.1	80.8	65.0	62.1	62.3
Purchasing power of exports of goods	81.6	114.2	73.4	68.6	92.1	96.5

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

Table 9  
URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1973	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Main traditional export products</u>									
Meat, hides and wool	237	195	260	262	75.3	43.2	-17.7	33.3	1.0
<u>Other exports</u>									
(mainly non-traditional)	144	190	305	345	24.7	56.8	31.9	60.5	13.1
<u>Total</u>	<u>381</u>	<u>385</u>	<u>565</u>	<u>607</u>	<u>100.0</u>	<u>100.0</u>	<u>0.9</u>	<u>46.8</u>	<u>7.4</u>

Source: Central Bank of Uruguay.

<sup>a/</sup> Preliminary figures.

An analysis of the breakdown of imports reveals that the major increase was in capital goods (40%), thus confirming the trend observed in 1975 and 1976. The share of these goods in the total of imports rose to 17% in 1977, a coefficient somewhat more than double that of 1973 (see table 10). This growth was partly attributable to some major investment projects in the public sector and the purchase of foreign machinery for the manufacture of non-traditional export products.

Imports of consumer goods and intermediate goods showed a similar increase (21%). Excluding oil and fuels, the increase in purchases of intermediate goods was around 28%, largely owing to the supply of inputs to certain manufacturing branches whose production increased sharply. Thus, for example, there was a notably rapid expansion in imports of common metals and their manufactures (50%), and of plastic materials, rubber and derivatives (40%).

There was a parallel rise in the unit value of imports and exports and consequently no change in the terms of trade from 1976 to 1977. As an index of the relationship, on the basis of 1970=100, the level recorded in the last two years reached 62, confirming the clearly negative effect on the economy of the country of the world economic situation in 1974 and 1975 (see table 8).

(c) The balance of payments

While trade in goods fell from a surplus in 1976 to a deficit in 1977, the service sector reduced its negative balance from 37 to 10 million dollars. This improvement was almost exclusively due to a higher revenue from tourism, which exceeded by more than 10 million the revenue of the previous year (see table 6).

In sum, the deficit on trade in goods and services together rose from 9 million dollars in 1976 to 53 million in 1977. To this last figure must be added 67 million representing payments on profits and interest on foreign capital and a small negative balance in respect of private transfer payments, with the result that the total deficit on current account rose to 121 million dollars.

Table 10  
URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Annual growth rates		
	1974	1975	1976	1977 <sup>a/</sup>	1973	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Consumer goods.	37	28	19	23	9.2	3.3	24.4	-32.1	21.1
Intermediate goods	418	456	478	579	83.0	79.8	9.3	0.5	21.1
Petroleum and fuels	161	183	180	199	19.2	27.4	13.9	-1.8	10.6
Others	257	273	298	380	63.8	52.4	6.4	1.9	27.5
Capital goods	32	73	88	123	7.8	16.9	128.1	20.5	39.8
<u>Total</u>	<u>487</u>	<u>556</u>	<u>587</u>	<u>726</u>	<u>100.0</u>	<u>100.0</u>	<u>14.6</u>	<u>5.6</u>	<u>23.7</u>

Source: Central Bank of Uruguay.

<sup>a/</sup> Preliminary figures.

/To finance

To finance this deficit, the country received a net inflow of non-compensatory capital amounting to 241 million dollars, a much higher figure than in 1976, the greater part of which entered the commercial banking system in the form of foreign currency deposits.

#### 4. Prices and wages

##### (a) Prices and anti-inflationary policy

During 1977 there was an upswing in prices showing a variation of 57% in the consumer price index compared with 40% in 1976. The average variation for the year was similar (58%) to that recorded from December to December. Nevertheless, the rate of inflation slowed down in the second half of the year, registering 22% in the second half and somewhat more than 6% in the fourth quarter, compared with 29% observed in the first six months (see table 11).

The items in the consumer price index which rose most rapidly were housing (66%), owing to the legal adjustments adopted during the year, and food (59%). This was partly due to the shortage of fruit and vegetables in the first six months and the restrictions on dairy and poultry production. Clothing production, on the other hand, rose by 47%.

The wholesale prices of domestic goods rose less (45%) than consumer prices, the decisive factor being the reduced weighting of agricultural products in the wholesale price index, since the increase in those products reached 56%. Thus there was a reversal of the trend towards a relative drop in agricultural prices observed in the period 1974-1976.

At the same time, wholesale prices of non-agricultural products rose by 42% - that is, less than almost all the consumer price items - and their growth rate was much slower in the second half of the year. Notable within this group of products was the relatively lower increase in the prices and charges of certain public services.

The anti-inflationary policy continued to be applied, mainly through monetary and fiscal measures.

Table 11  
URUGUAY: EVOLUTION OF DOMESTIC PRICES  
(Percentage variations)

	Variation in the period indicated					Variation between annual averages		
	1976a/	1977				1975	1976	1977
		First half	Second half	Fourth quarter	Year a/			
<u>Consumer price index</u>	<u>39.9</u>	<u>29.1</u>	<u>21.9</u>	<u>6.4</u>	<u>57.3</u>	<u>81.4</u>	<u>50.6</u>	<u>58.2</u>
Food	38.5	34.3	18.8	5.5	59.5	70.8	47.7	64.0
Meat, coked meat and sausages	63.1	19.7	12.1	...	34.2	32.8	54.2	55.3
Clothing	36.4	21.8	20.4	10.1	46.6	67.3	47.7	46.8
Housing	43.5	25.3	32.8	6.8	66.5	97.9	56.8	59.3
Other	41.1	26.4	18.8	6.6	50.1	93.7	52.0	52.4
<u>Wholesale price index (domestic)</u>	<u>45.1</u>	<u>19.8</u>	<u>20.9</u>	<u>8.6</u>	<u>44.8</u>	<u>72.4</u>	<u>50.6</u>	<u>50.3</u>
Agricultural products	45.4	12.7	38.3	20.8	55.8	47.4	37.8	52.1
Crop-farming products	10.8	14.3	32.1	11.6	51.0	76.0	24.7	35.5
Livestock products	84.1	11.5	42.6	27.6	59.1	26.5	51.2	65.9
Cattle	95.4	13.1	64.2	...	85.7	6.9	28.6	98.2
Non-agricultural products	45.0	21.9	16.2	5.2	41.7	82.1	54.6	49.8
Petroleum products	32.9	23.5	8.9	...	34.4	109.7	52.4	46.6
Electric energy	51.1	27.1	7.8	...	37.0	76.1	55.2	58.0

Source: Central Bank of Uruguay and Statistics and Census Office.

a/ December to December.

/During the



During the first six months of 1977 the shortage, already mentioned, of certain basic foodstuffs and the considerable monetary expansion at the end of 1976 helped to accelerate the growth rate of prices. In view of this development and in order to avoid a new flare-up of inflation, an attempt was made to maintain the percentage increase of the means of payment at a lower level than that of the previous year. This task was made easier by the fact that the financial requirements of the public sector were relatively less, as a result of the reduction achieved in the overall deficit of the central Government.

At the same time, the monetary policy succeeded in partially offsetting the vigorous expansion of domestic credit to the private sector, through the application of specific measures to reinforce the impact of the so-called absorption factors, which will be referred to below.

(b) Wages and salaries

In the course of the year there were four general adjustments in the wages and salaries of workers in the public and private sectors. These adjustments were made in February (10%), June (10% for the private sector and up to 12% for the public sector), September (as for June), and December (7%). The wage increases for the private sector were minimum, whereas for the public sector both minimum and maximum increases were established.

These increases, added to certain minor adjustments in the wages of some labour categories and in social benefits, were reflected in the average wage index, which registered in the year a nominal increase of 39% (41% for the public sector and 38% for the private sector). Taking into account the evolution of the consumer price index, the average real wage dropped by almost 12% (11% for wage-earners in the public sector and 13% for those in the private sector receiving only the official minimum increases) (see table 12).

Table 12  
URUGUAY: EVOLUTION OF AVERAGE WAGE  
(Variation between annual averages)

	1975	1976	1977 <sup>a/</sup>
<u>Nominal</u>			
All wage-earners	66.4	42.0	39.0
Wage-earners in public sector	65.5	45.1	40.6
Wage-earners in private sector	67.1	39.4	37.6
<u>Real b/</u>			
All wage-earners	-8.8	-5.8	-11.9
Wage-earners in public sector	-8.9	-4.0	-10.9
Wage-earners in private sector	-8.8	-7.4	-12.9

Source: Statistics and Census Office.

a/ Preliminary figures.

b/ Deflated by the consumer price index.

/As regards

As regards private wages, a survey carried out among 560 industrial and commercial enterprises revealed that the variations in average salaries actually received during the first nine months of the year might have been greater than the minimum fixed by the Government. In view of this, the drop in real wages during the period in question might be a third less than that which can be assessed on the basis of the authorized legal adjustments.

## 5. Monetary and fiscal policy

### (a) The monetary situation

The supply of money - in its restricted version ( $M_1$ ) - rose by 40% during 1977 compared with 61% in the previous year (see table 13). In accordance with a broader concept, which includes time deposits in national currency, the expansion of the means of payment was 44% in 1977.<sup>3/</sup> This means that the increase in nominal liquidity was markedly lower than the rise in consumer prices, but parallel to that registered for national wholesale prices.

In 1977 net domestic credit, which increased by 59%, was the major factor of expansion. In the field of domestic credit, in its turn, the greatest increase related to placements in the private sector (65%), while credit to the Government rose by 60% and that to public institutions declined. Moreover, there was an increase in net international reserves of 48%.

Among the factors of absorption, which together increased by 64%, there was a notable rise in deposits in foreign currency (91%). At the end of 1977 the sum of these deposits amounted to double the item described as quasi-money, which mainly includes the time deposits in national currency.

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<sup>3/</sup> Included among the time deposits in national currency are N\$ 300 million corresponding to financial "swaps"; it is assumed, therefore, that these "swaps" replaced time-deposits operations in national currency.

Table 13

URUGUAY: MONETARY POSITION

	End-year balance (millions of pesos)			Growth rates		
	1975	1976	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<u>Money</u>	<u>822</u>	<u>1 325</u>	<u>1 860</u>	<u>53.5</u>	<u>61.2</u>	<u>40.4</u>
Currency outside banks	470	782	1 115	48.8	66.5	42.5
Demand deposits	352	543	745	60.2	54.3	37.3
<u>Factors of expansion</u>	<u>2 545</u>	<u>4 096</u>	<u>6 410</u>	<u>65.6</u>	<u>94.4</u>	<u>56.5</u>
Foreign assets (net)	365	918	1 355	...	...	47.6
Domestic credit	2 180	3 178	5 055	82.4	51.2	59.1
Government (net)	383	(640)	(1 022)	(92.7)	(75.9)	(59.5)
Official entities	31	(-168)	(-437)	...	...	...
Private sector	1 766	(2 706)	(4 470)	(77.2)	(58.9)	(65.2)
<u>Factors of absorption</u>	<u>1 723</u>	<u>2 771</u>	<u>4 550</u>	<u>82.1</u>	<u>127.5</u>	<u>64.2</u>
Quasi-money	267	673	1 017	105.6	91.9	51.0
Deposits in foreign currency	581	1 093	2 092	134.2	153.7	91.4
Long-term foreign borrowing	-78	-137	-153	...	...	...
Other items (net)	953	1 142	1 594	...	185.5	39.6

Source: Central Bank of Uruguay.

<sup>a/</sup> Preliminary figures.

One of the elements of the monetary policy which was affecting the growth of domestic credit to the private sector and stimulating its increase beyond the limits of prudence was the operation of the mechanism of advances to exporters in national currency as a counterbalance to the foreign currency they generate. In order to moderate the expansionary effects of this system of export prefinancing, certain restrictive measures were adopted during the year, above all in October.

Among the chief measures adopted in this field were the following:

- (i) an increase in the commission rates charged for the provision of funds in national currency; (ii) a reduction and unification of the counterbalance in pesos paid for the foreign currency; and (iii) the introduction of disincentives for the use, within the system, of foreign currency not directly deriving from exports, by means of an increase in the compulsory reserve rates on foreign currency deposits and by changes in the authorized interest rates for loan and deposit operations in foreign currency.

Other important aspects of the monetary policy applied during the year were the following:

- (i) The maximum interest rate allowed for non-adjustable national currency operations was raised to 90%, applicable for a year in arrears. This measure increased the flexibility of the real interest rate schemes operating in the financial market;

- (ii) The use of open market operations was intensified, resulting in a greater fluidity in the buying and selling of Treasury Bonds and dissociating them from the existing system of compulsory holding of public securities. At the same time, as a compensatory measure, an interest rate was temporarily authorized on deposits for reserve purposes held by the banks in national currency;

- (iii) The reserve rates were fixed at 50% for sight deposits, 35% for time deposits for less than a year and 12% for time deposits for a year or more. Towards the end of the year the rates for the two latter types of deposit were reduced to 30% and 6% respectively but at the same time certain operations such as bank acceptances were included in the reserves system which were previously not subject to this obligation.

/(b) Fiscal

(b) Fiscal trends

In 1977 the deficit of the central Government represented about 8% of total expenditure, a figure considerably lower than that of previous years (26% in 1974, 27% in 1975 and 16% in 1976) (see table 14).

This reduction is accounted for by the growth in real terms - considering the variation in consumer prices - of current income (8%) and a slight drop in total spending (2%). This last took place despite the introduction in 1977 of a policy of reducing the periods of payment to suppliers.

The increase in current income was partly attributable to the measures adopted to speed up the collection of taxes and to improve the control of tax evasion. Specifically, fines and additional charges for tax arrears were introduced and restrictions were placed on the facilities for payment usually given to late payers. There were no major changes in the structure of tax collection. Taxes on foreign trade, on the value added and on liquid fuels continued to represent about two-thirds of total taxation.

The increase in current expenditure was 55%, but there were important differences in the evolution of its components. Whereas expenditure on wages and social security rose by 44%, representing the development in average wages mentioned earlier, the item referred to as "other current expenditure" increased by 78%. Thus, the purchase of goods and services increased its share in current expenditure from 14% in 1976 to 20% in 1977.

Public investment in constant currency rose slightly (1%). Nevertheless, as in previous years, the investment figures are not very representative, since they exclude expenditure on the Salto Grande and Palmar hydroelectric projects financed with foreign resources.

In 1977, in order to finance the deficit, recourse was had primarily to domestic resources deriving from loans from the Central Bank and the Bank of the Republic. This procedure was adopted owing to the relative restriction on the net sale of public securities, in contrast to what had happened in the period 1974-1976. With reference to external financing the amounts recorded were negligible, since the payments made in connexion with the Salto Grande and Palmar projects were not taken into account.

Table 14  
URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos					Annual growth rates			
	1973	1974	1975	1976	1977 <sup>a/</sup>	1974	1975	1976	1977 <sup>a/</sup>
1. <u>Current income</u>	<u>370</u>	<u>588</u>	<u>986</u>	<u>1 722</u>	<u>2 938</u>	<u>58.8</u>	<u>67.6</u>	<u>74.7</u>	<u>70.6</u>
Tax revenue	351	555	929	1 633	2 771	58.1	67.4	75.7	69.7
Non-tax revenue	19	33	57	89	167	72.6	72.3	57.7	87.5
2. <u>Current expenditure</u>	<u>372</u>	<u>709</u>	<u>1 204</u>	<u>1 808</u>	<u>2 796</u>	<u>90.6</u>	<u>69.7</u>	<u>50.2</u>	<u>54.6</u>
Wages and salaries and social security contributions	256	499	871	1 264	1 826	95.2	74.4	45.2	44.4
Other current expenditure	116	210	333	544	970	80.5	58.5	63.1	78.5
3. <u>Saving on current account</u> (1-2)	<u>-2</u>	<u>-121</u>	<u>-218</u>	<u>-86</u>	<u>142</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
4. <u>Real investment b/</u>	<u>34</u>	<u>80</u>	<u>145</u>	<u>239</u>	<u>382</u>	<u>133.5</u>	<u>81.0</u>	<u>65.2</u>	<u>59.6</u>
5. <u>Total expenditure (2+4)</u>	<u>406</u>	<u>790</u>	<u>1 349</u>	<u>2 047</u>	<u>3 178</u>	<u>94.2</u>	<u>70.8</u>	<u>51.8</u>	<u>55.2</u>
6. <u>Fiscal deficit (or surplus)</u> (1-5)	<u>-36</u>	<u>-202</u>	<u>-263</u>	<u>-326</u>	<u>-241</u>	<u>455.3</u>	<u>80.2</u>	<u>-10.3</u>	<u>-26.1</u>
7. <u>Financing of deficit</u>	<u>36</u>	<u>202</u>	<u>363</u>	<u>326</u>	<u>241</u>	<u>455.3</u>	<u>80.2</u>	<u>-10.3</u>	<u>-26.1</u>
Domestic financing	28	201	363	307	226	611.3	80.8	-15.3	83.2
Central Bank and Banco de la República	21	94	95	173	287	348.8	1.5	81.7	65.7
Issue of securities (net of amortization payments)	10	114	263	127	29	1 016.1	131.4	-52.0	-77.0
Other	-3	-7	4	8	-90	...	...	...	...
External financing b/	8	1	1	18	15	-87.6	-30.0	...	-19.6
8. <u>Fiscal deficit as a percentage of total expenditure</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25.5</u>	<u>26.9</u>	<u>15.9</u>	<u>7.6</u>

Source: Office of the comptroller.

a/ Preliminary figures.

b/ Excluding investment with external resources in the Salto Grande and Palmar projects not yet entered.

## VENEZUELA

### 1. The overall picture

In 1977 the economy achieved a high rate of growth for the fifth year in succession. In line with the general trend of recent years, the expansion was due to intensive growth in the domestic sectors of the economy, which more than made up for the fall in production of petroleum and iron ore - the two traditional export products - due to poor external demand and to the Government's policy of conserving basic natural resources.

Economic growth was accompanied by a moderate rise in prices and by changes in rates of growth in certain productive activities. Perhaps the most significant feature of the year was the end of the process of absorption of the surplus arising from high oil prices, as indicated by a deficit on the current account of the balance of payments and an overall fiscal deficit.

The gross domestic product increased by 8% in 1977 (somewhat more than in 1976), while the per capita product rose by almost 5%. A small rise in the terms-of-trade index led to a 6% increase in the country's gross income. The progress made since 1973 can be seen from the fact that in 1977 real GDP, per capita GDP and gross income were respectively 38, 17 and 56% higher than in 1972 (see table 1).

As far as sectoral developments were concerned, activity in petroleum dropped by 1% in 1977, while there was a rise of 9% in the other sectors. In the previous year the pattern had been slightly different, with rises of 1% in petroleum and 8% in the rest of the economy. One of the most notable aspects of sectoral activity in 1977 was the growth of a little over 10% in the agriculture and livestock sector, after a decline of almost 4% in 1976. In addition, manufacturing continued the exceptional growth rate it has been achieving since 1974, while for the third year running there was an extraordinarily high level of activity in the construction sector, especially in the interior.

/Table 1



Table 1  
VENEZUELA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	13 261	14 149	14 976	15 754	16 923	18 294
Population (millions)	11.5	11.8	12.3	12.7	13.1	13.5
Per capita gross domestic product (US dollars at 1970 prices)	1 158	1 195	1 223	1 244	1 292	1 352
<u>Growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	3.0	6.7	5.9	5.2	7.4	8.1
Per capita gross domestic product	-0.4	3.2	2.3	1.7	3.9	4.6
Gross income <sup>b/</sup>	3.1	12.5	31.6	-5.6	5.3	6.2
Terms of trade	1.1	20.8	114.7	-8.0	-2.7	1.5
Current value of exports of goods and services	2.9	49.0	129.6	-19.0	6.1	6.4
Current value of imports of goods and services	16.3	16.9	54.8	35.6	19.5	31.8
Consumer price index						
December to December	3.5	5.1	11.6	8.0	6.9	8.1
Variation between annual averages	2.9	4.1	8.3	10.2	7.7	7.8
Money	21.1	20.1	43.2	52.4	14.5	24.4 <sup>c/</sup>
Wages and salaries	...	...	17.8	13.4	10.2	9.3
Rate of unemployment <sup>d/</sup>	...	...	...	7.2	6.0	5.0
Current income of government	4.8	31.7	165.1	-3.9	-6.8	6.2
Total expenditure of government	5.6	10.3	98.5	9.6	30.1	22.9
Fiscal deficit/total expenditure of government	9.5	8.0 <sup>e/</sup>	44.2 <sup>e/</sup>	26.4 <sup>e/</sup>	9.4	21.6
<u>Millions of US dollars</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	538	1 731	6 499	2 406	1 606	-444
Balance on current account	-24	793	5 729	2 237	1 519	-594
Variation in net international reserves	211	612	4 463	2 711	69	-79
External debt <sup>f/</sup>	1 419	1 539	1 497	1 272	2 970	...

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Over 12 months to September.

<sup>d/</sup> Percentage.

<sup>e/</sup> Surplus.

<sup>f/</sup> Public debt guaranteed by the state, excluding short-term debt.

/Real growth

Real growth in the economy was also accompanied by important progress in the social field. The national unemployment rate dropped from 6% in 1976 to 5% in the first half of 1977, while real wages rose considerably (see table 1). Other indicators of social welfare also improved, including the rates of general and infant mortality and the number of hospital beds.

In the external sector deficits emerged in 1977 on the trade account, the current account and the final balance of payments. The deficit on the trade and current accounts followed a progressive reduction in 1975 and 1976 in the surpluses arising from the high oil prices. The main cause was a veritable explosion of imports, together with stagnation in exports since 1974 (see table 1).

Faced with a current account deficit and the need to release a substantial sum in dollars to fulfil the commitments laid down in the official programme of financial assistance to other developing countries, the Government decided to borrow heavily on external private markets, thus minimizing the use of its international reserves. As a result the final balance-of-payments deficit - the first since 1966 - totalled only 79 million dollars. At the end of the year net international reserves, though slightly below the 1976 level, still stood at the extraordinary figure of over 8 billion dollars, enough to cover almost nine months' imports.

Venezuela considerably increased its external public debt in 1977, as a result of the fact that during the year the Government borrowed more than 2 billion dollars on private markets: twice as much as was borrowed from the same sources in 1976 and equivalent to two-thirds of the total external public debt at the end of 1976.

Consumer prices increased by 7.8% in 1977, a rate similar to that of 1976. Inflation, though high compared with historical rates, is surprisingly low bearing in mind the extraordinary growth in the money supply in recent years (see table 1). The difference between growth in money supply and the rise in prices is largely due to the extensive system of retail price controls and subsidies and to the huge volume of imports, which caused a substantial increase in the domestic supply of goods.

/Data on

Data on fiscal performance also show that Venezuela has effectively absorbed the surplus arising from high oil prices. In 1977 there was a fiscal deficit equivalent to 22% of total expenditure, more than double the previous year's deficit (see table 1). The deficit, a large part of which was covered by means of the external loans mentioned above, occurred because there has been a continuous, intensive growth in current expenditure and real investment since 1974, while income has declined slightly since that year.

Further evidence of the change in the public finances was provided by the fact that in 1977 the Government made no transfers to the Venezuelan Investment Fund (FIV), which between 1974 and 1976 received 23 billion bolívares of fiscal surpluses. Nevertheless, the Fund has continued to be very active: during the year it authorized loans or capital participations for domestic investments totalling 2.4 billion bolívares and disbursed 5.7 billion for the same purposes. While no new commitments were made under the programme of international financial co-operation, it disbursed the equivalent of almost 220 million dollars in fulfilment of commitments made in previous years.

## 2. Evolution of economic activity

### (a) Trends in overall supply and demand

As already noted, the economy experienced vigorous growth in 1977 for the fifth consecutive year. In line with the trend observed in recent years, growth in GDP was accompanied by considerable expansion in imports of goods and services, which rose 20% in real terms compared with the previous year. Greater imports, together with expanding domestic production of goods and services, meant that growth in total supply was also extraordinarily high (see table 2).

Since 1974 imports have been increasing in importance in total supply. In 1977 they represented more than 23% of it, as against somewhat less than 17% in 1973. The much greater role of imports in total supply can be appreciated even more clearly if it is remembered that in the period 1974-1977 the real increase in imports of goods and services was equivalent to two-thirds of the rise in GDP, while the corresponding figure for 1970-1973 was only 14%.

/Table 2

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívars at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
<b>Total supply</b>	<b>82 532</b>	<b>89 114</b>	<b>98 620</b>	<b>119.5</b>	<b>130.5</b>	<b>7.7</b>	<b>8.0</b>	<b>10.7</b>
Gross domestic product at market prices	65 056	69 885	75 546	100.0	100.0	5.2	7.4	8.1
Imports of goods and services <sup>b/</sup>	17 476	19 229	23 074	19.5	30.5	18.2	10.0	20.0
<b>Total demand</b>	<b>82 532</b>	<b>89 114</b>	<b>98 620</b>	<b>119.5</b>	<b>130.5</b>	<b>7.7</b>	<b>8.0</b>	<b>10.7</b>
Domestic demand	72 881	79 452	89 184	94.0	118.0	13.4	9.0	12.2
Gross domestic investment	23 695	25 891	...	27.0	...	15.3	9.3	...
Gross fixed investment	20 720	25 818	30 465	22.0	40.3	25.6	24.6	18.0
Construction								
Machinery and equipment								
Public	10 023	12 227	...	7.0	...	58.5	22.0	...
Private	10 697	13 591	...	15.0	...	5.1	27.1	...
Changes in stocks	2 975	73	...	5.0	...			
Total consumption	49 686	53 561	58 719 <sup>c/</sup>	67.0	77.7 <sup>c/</sup>	13.6	7.8	9.6 <sup>c/</sup>
General government	10 986	12 559	13 563	13.4	18.0	14.5	14.3	8.0
Private	38 200	41 002	45 156	53.6	59.7 <sup>c/</sup>	11.9	7.3	10.1 <sup>c/</sup>
Exports of goods and services <sup>b/</sup>	9 651	9 662	9 436	25.5	12.5	-22.0	0.1	-2.3

Sources: 1970-1976: CEPAL calculations on the basis of figures from the Central Bank of Venezuela.

1977: CEPAL estimates on the basis of official data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using indexes calculated by CEPAL for the purpose.

<sup>c/</sup> Including changes in stocks.

/The sharp

The sharp increase in the marginal import coefficient in the past four years is due in part to the high foreign content of the ambitious programme of public investment and to the inability of the domestic productive sector to cope fully with the growing domestic consumption of goods and services, especially those with high income elasticity.

Among the components of total demand, the growth rate of capital formation, although lower than in the period 1975-1976, remained at a very high level (18%) in 1977. Rapid expansion in gross fixed investment in recent years has led to an exceptionally high investment ratio of 40%, nearly double the 1970 figure. The principal stimulus to investment was the strong dynamic effect of the public sector on the economy as a whole through the implementation of projects in the fields of basic industries, agriculture, electricity, road and port infrastructure and urban development. Furthermore, construction in both the public and private sectors achieved very high levels, as in the two preceding years. In 1977 construction activity was concentrated in the interior.

Domestic consumption in the private sector continued the upward trend which began in 1974. It increased by 10% in real terms in 1977, compared with an annual average of 11% from 1974 to 1976 and only 3% between 1970 and 1973. Government consumption also showed a high growth rate (8%), although this was a good deal lower than between 1974 and 1976, when the average annual rate was almost 16%. Overall consumption has grown at an annual average rate of 11% since 1974, while average growth in per capita consumption has been at the high rate of nearly 8%.

In contrast with the expansion of the domestic sector, real levels of activity in the external sector have continued to decline. In 1977 the volume of exports dropped by 2% after an annual average fall of 10% from 1974 to 1976. The performance of exports reflects a fall in the volume of output from the national oil industry, as a result of which the share of exports in total demand was only 10% in 1977, compared with 20% in 1970.

Table 2 also shows the impact of high oil prices on the Venezuelan economy. While the relation between volume of exports and GDP fell by half between 1970 and 1977, the volume of imports rose from 20 to 31% over the same period.

(b) Sectoral developments

(i) Petroleum. The product of the petroleum sector dropped by 1% in real terms in 1977, thus continuing the decline which has been observed since 1971 and which has led to a fall in the contribution of the sector to real GDP 22% in 1970 to only 10% in 1977 (see table 3). The contraction is largely a result of the Government's policy of conserving basic resources, but reduced world demand for oil since 1974 has also been a contributing factor.

In 1977 extraction of crude petroleum fell by almost 3% with a drop in the daily average from 2.3 million barrels in 1976 to 2.2 million in 1977.

In 1977 oil refining fell by 1% <sup>1/</sup> to about 968,000 barrels a day. Venezuela's refining capacity is 1.6 million barrels a day (first-stage separation).

The total volume of petroleum products exported dropped by 6% in 1977. Exports of crude, which fell by 3%, included 33% of heavy crude, compared with 27% in 1976. This higher proportion of heavy crude was the result of a national policy for conservation of medium and light crudes, which are relatively scarce in Venezuela and command a higher price internationally.

It should be noted that the reduction in the volume of refined petroleum exported is substantially larger than the drop in production, partly because of rising domestic consumption of petroleum products (see table 4). The rise in consumption of medium-octane and high-octane gasoline was especially marked in 1977, with growth rates of 17 and 21% respectively. In order to meet increasing domestic demand for gasoline while ensuring that the country will not become obliged to import it in coming years, it was decided to change the pattern of refining in the oil industry, and during 1977 projects were initiated which will expand refining capacity by 53,000 barrels by 1980.

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<sup>1/</sup> The discrepancy between this figure and that given in table 3 is due to the fact that different sources were used.

Table 3

VENEZUELA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of bolívars at 1970 prices			Percentage breakdown		Growth rates		
	1975	1976	1977 <sup>a/</sup>	1970	1977 <sup>a/</sup>	1975	1976	1977 <sup>a/</sup>
Agriculture	4 469	4 298	4 745	7.5	6.5	7.0	-3.8	10.4
Petroleum	7 118	7 186	7 095	22.2	9.7	-22.0	1.0	-1.3
Extraction	5 691	5 608	5 457	18.5	7.5	-21.0	-1.5	-2.7
Refining	1 427	1 578	1 638	3.7	2.2	-25.8	10.6	3.8
Mining (excluding petroleum)	874	764	691	1.4	0.9	-4.1	-12.6	-9.6
Manufacturing	7 988	8 877	9 720	11.3	13.3	11.4	11.1	9.5
Construction	3 746	4 402	5 150	3.8	7.1	18.0	17.5	17.0
Subtotal goods	<u>24 195</u>	<u>25 527</u>	<u>27 401</u>	<u>46.2</u>	<u>37.5</u>	<u>-1.5</u>	<u>5.5</u>	<u>7.3</u>
Electricity, gas and water	1 428	1 571	1 713	1.7	2.3	17.1	10.0	9.0
Transport, storage and communications	7 911	8 766	9 818	10.9	13.5	10.1	10.8	12.0
Subtotal basic services	<u>9 339</u>	<u>10 337</u>	<u>11 531</u>	<u>12.6</u>	<u>15.8</u>	<u>11.1</u>	<u>10.7</u>	<u>11.5</u>
Commerce, restaurants and hotels	7 507	8 049	8 653	11.0	11.8	12.9	7.2	7.5
Financial institutions, insurance and real estate	8 718	9 328	10 431	12.9	14.3	5.6	7.0	11.8
Community, social and personal services	12 914	13 998	15 114	17.3	20.7	9.7	8.4	8.0
Subtotal other services	<u>29 139</u>	<u>31 375</u>	<u>34 198</u>	<u>41.2</u>	<u>46.7</u>	<u>9.2</u>	<u>7.7</u>	<u>9.0</u>
Total gross domestic product <sup>b/</sup>	<u>62 384</u>	<u>67 014</u>	<u>72 443</u>	<u>100.0</u>	<u>100.0</u>	<u>5.2</u>	<u>7.4</u>	<u>8.1</u>

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela;  
1977: CEPAL estimates on the basis of official information.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4

VENEZUELA: SOME INDICATORS RELATING TO PETROLEUM AND IRON ORE

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<b>1. Petroleum (millions of barrels)</b>							
<u>Production</u>	<u>1 516</u>	<u>1 172</u>	<u>1 198</u>	<u>1 170</u>	-22.7	2.2	-2.3
Crude petroleum	1 080	856	840	817	-20.7	-1.9	-2.7
Refined petroleum	436	316	358	353	-27.6	13.4	-1.4
<u>Exports</u>	<u>1 022</u>	<u>761</u>	<u>788</u>	<u>738</u>	-25.5	3.6	-6.4
Crude petroleum	645	537	502	486	-16.7	-6.7	-3.2
Refined petroleum	377	224	286	252	-40.5	27.8	-12.2
Domestic consumption of refined petroleum	91	89	94	101	-2.2	5.7	7.2
Reserves	18 568	18 395	18 229	17 995	-1.1	-1.1	-1.1
Theoretical life of the reserves <sup>b/</sup> (years)	17.1	21.5	21.7	22.1	25.7	0.9	1.8
<b>2. Gas</b>							
Production (millions of cubic metres)	46 426	38 008	37 135	37 512	-18.1	-2.4	1.1
Utilized (%)	79.0	89.0	92.0	93.0	12.6	3.5	0.8
Wasted (%)	21.0	11.0	8.0	8.0	-46.7	-27.4	-8.5
<b>3. Iron ore (millions of metric tons)</b>							
Production	27.0	25.0	18.0	13.0	-7.5	-29.0	-27.3
Exports	26.0	21.0	17.0	12.0	-18.9	-17.6	-31.2

Source: President of Venezuela, Mensaje al Congreso de la República, March 1978.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Reserves divided by production in the corresponding year.



Production of natural gas reached 37.5 billion cubic metres - a rise of 1% over 1976. In pursuance of official measures for the conservation of resources, only 8% of total production was flared off, compared with 21% in 1976. In order to make even better use of the gas resources, in 1977 the Government approved four projects for gas compression and transport facilities with a capacity of 6 million cubic metres a day. In addition, work continued on studies with a view to the establishment of two plants for extracting liquid hydrocarbons from natural gas, each with an approximate production capacity of 3,700 cubic metres a day.

As a result of investment in the petroleum industry in 1977, 430 wells were drilled. Of the total, 405 proved to contain petroleum and 1 gas; 11 were dry, while 13 were used for injection of fluids. Drilling of wells increased by 25% over 1976, which in turn had shown a rise of 28% over the previous year.

Taking into account the volume extracted and the new discoveries made during the year, remaining reserves of petroleum were estimated at 17,995 million barrels at the end of 1977, reflecting a drop of 1% compared with 1976. Since the drop was smaller than the drop in production of crude, the theoretical life of the reserves increased a little, to just over 22 years. The effect of the Government's conservation measures can be gauged if it is remembered that in 1970 the theoretical life of the reserves was estimated at only just over 10 years.

The financial balance of the petroleum industry was satisfactory in 1977, despite an increase of over 7% in operating costs. The increase was due to rises of more than 11% in wages and salaries under the new collective contract, about 8% in payments to foreign companies for technological assistance,<sup>2/</sup> almost 5% in statutory payments to the co-ordinating enterprise, Petróleos de Venezuela S.A. (PETROVEN), and more than 11% for various other aspects of operations. As a result of an improvement in sales prices and lower payments of income tax, the net profit of the domestic subsidiary enterprises rose from just over 1,050 million bolívares in 1976 to 5,450 million in 1977. These profits will enable them to invest heavily in the coming years in exploration, raising capacity, changing the pattern of refining and modernizing the industry.

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<sup>2/</sup> Payments to foreign oil companies by domestic industry amounted to 0.83 bolívares per barrel.

(ii) Mining. The real product of mining, excluding petroleum, fell by almost 10% in 1977. This third successive year of contraction in this sector (see table 3) was basically due to an appreciable fall in production of iron ore, from 27 million metric tons in 1974 to 13 million in 1977. The drop in 1977 compared with 1976 was 27% (see table 4). The reason for the contraction was lower levels of activity in the world iron and steel industry from the second half of 1975 onwards.

Exports of iron ore fell by 31% in 1977. However, domestic sales increased substantially (50%) as a result of the initiation of production by a briquette plant and a pellet plant. Nevertheless, less than 3% of production of iron ore is destined for the domestic market.

(iii) Agriculture. According to preliminary estimates, the agricultural product rose by more than 10% in 1977, thus amply compensating for the fall of nearly 4% in 1976. Since 1974 output from the sector has grown at an annual average rate of about 5%, with per capita growth slightly above 1%.

While livestock raising and fishing expanded at fairly high rates in 1977, greatest growth was recorded in the crop farming subsector (see table 5). This performance was due to a substantial increase in the area cultivated (15%) and a rise in productivity (5%), linked to favourable climatic conditions and the policy followed by both public and private agencies of providing substantial finance to the sector. It should be added that much of the publicly provided finance was granted on very favourable terms.

Some crops, such as rice, maize, beans, sesame, potatoes and cocoa, production of which had fallen in 1976, showed substantial rises. Others, including sorghum and yuca, which have been gaining in importance as raw materials for domestic industry, enjoyed continued expansion. There were falls in output of cotton, coffee, sugar cane, peanuts and some green vegetables.

The intense onset of summer in the first few months of the year, which had a favourable effect on agricultural crops, seriously harmed output of meat and milk. Cattle slaughtering was down almost 10%, and it was necessary to resort to imports from Colombia and various Central American countries to meet growing domestic demand. Production of pigs and goats rose markedly in 1977, while poultry production increased only moderately (see table 5).

Table 5

VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION <sup>a/</sup>

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<b>Crop farming production (thousands of tons)</b>							
Cereals	885	1 087	933	1 633	22.9	-14.1	75.0
Leguminous grains	38	42	45	56	11.2	8.1	23.0
Roots and tubers	583	601	630	703	3.0	5.0	11.5
Textiles and oil-seeds	341	343	312	360	0.5	-9.1	15.4
Fruit	1 523	1 465	1 559	1 773	-3.8	6.4	13.8
Green vegetables	205	225	259	237	8.6	16.5	-8.6
Coffee, cocoa and others	6 355	5 952	6 219	5 606	-6.3	4.5	-9.9
<b>Stock-raising production</b>							
Milk (millions of litres)	1 100	1 187	1 157	1 206	7.9	-2.5	4.3
Cattle (thousands head)	1 345	1 475	1 434	1 510	9.7	-2.8	5.3
Slaughtering	1 099	1 160	1 005	907	5.5	-13.4	-9.7
Increase in numbers	246	316	429	603	28.3	36.0	40.5
Pigs (thousand head)	1 248	1 253	1 372	1 484	0.4	9.5	8.2
Slaughtering	1 023	1 168	1 276	1 336	14.1	9.3	4.7
Increase in numbers	225	84	96	148	-62.6	14.1	54.4
Poultry (millions)	97	109	119	121	11.7	9.6	1.8
Eggs (millions)	1 627	1 743	1 822	1 866	7.2	4.5	2.4
Goats (thousand head)	377	417	450	491	10.8	7.7	9.1

Source: President of Venezuela, Mensaje al Congreso de la República, March 1978.

<sup>a/</sup> Preliminary figures.

/During the

During the first half of 1977 difficulties arose in the supply of food and agricultural raw materials for industry, because of the low output of many items in 1976. In view of this situation, in April 1977 the Government lifted restrictions on imports of food and exempted them from taxes and from fees for customs services. As production levels recovered, supply to the domestic market began to return to normal during the last few months of the year.

The fact that domestic production was inadequate to meet the increased demand had a great influence on price levels for domestically produced agricultural products and imported foodstuffs.

Producer prices for agricultural goods rose considerably compared with 1976, with an estimated increase of just over 16%. This was basically due to rises in the prices of products not subject to controls, such as fruit (41%), roots and tubers (25%) and green vegetables (16%). Minimum prices in the "coffee, cocoa and others" group increased by 36%. Prices of livestock products also rose, by 8%.

During 1977, under the programme for the importation of products of agricultural origin, 1.6 million metric tons of products worth 440 million dollars were purchased. The main products imported were maize, sugar, milk powder and sorghum. The total value of these imports, which represented an increase of 16% over 1976, was equivalent to 33 dollars per head.

Agricultural finance by the official agricultural banks increased in 1977. Allocations by the Instituto de Crédito Agrícola and the Banco de Desarrollo Agropecuario totalled 3.8 billion bolívares, an increase of 100% over 1976 (see table 6). The Fondo de Crédito Agropecuario approved allocations to a value of 344 million bolívares in 1977, 39% more than in the previous year.

New economic policy measures were approved in 1977 to stimulate growth in the sector. Special mention should be made of the approval of a law authorizing the Fondo de Crédito Agropecuario to borrow from the public up to 1.5 billion bolívares in order to prevent exhaustion of its resources and consequent cuts in its activities. It was also decided that this fund should channel its resources as follows: 40% to the crop farming subsector, 40% livestock raising, and 20% to special programmes, with priority for fishery and forestry activities.

Table 6

VENEZUELA: ALLOCATIONS BY THE OFFICIAL AGRICULTURAL BANKING SYSTEM

	Millions of bolívares				Growth rates		
	1974	1975	1976	1977a/	1975	1976	1977a/
Instituto de Crédito Agrícola	<u>581</u>	<u>951</u>	<u>1 085</u>	<u>1 212</u>	<u>63.7</u>	<u>14.1</u>	<u>11.7</u>
Own resources	483	804	983	1 149	66.5	22.3	16.9
Other resources b/	98	147	102	63	50.0	-30.6	-38.2
Banco de Desarrollo Agropecuario	<u>657</u>	<u>1 325</u>	<u>796</u>	<u>2 549</u>	<u>101.7</u>	<u>-39.9</u>	<u>220.2</u>
Own resources	559	745	696	1 135	33.1	-6.6	63.1
Other resources b/	98	580	100	1 414	491.8	-82.8	1 314.0
<u>Total</u>	<u>1 238</u>	<u>2 276</u>	<u>1 881</u>	<u>3 761</u>	<u>83.8</u>	<u>-17.4</u>	<u>99.9</u>

Source: President of Venezuela, Mensaje al Congreso de la República, March 1978.

a/ Preliminary figures.

b/ Including credits from the Fondo de Crédito Agropecuario.

(iv) Manufacturing. This sector, which contributes 13% of the GDP, has shown a high rate of growth since 1974. Preliminary estimates indicate that growth in 1977 was a little above 9%, i.e., slightly lower than the 1976 and 1975 rates of 11% (see table 3).

Various factors were responsible for this slow-down, including lack of growth in the supply of domestically produced raw materials, especially from agriculture, as a result of the drop in domestic output in 1976; the shortage of skilled labour; and a reduction in the level of credits allocated to industry by the public financial institutions. The activities most affected by this situation were agro-industries and some producers of intermediate goods.

The consumer goods industries continued to grow strongly. Among intermediate goods substantial growth rates were recorded for inputs for the manufacture of capital goods, such as basic metals, iron and steel, metal products, non-metallic minerals and chemical products.

In the basic metal industries group an iron ore briquette plant, a pellet plant and a ferro-alloy plant began operations, offsetting the lower output of cast iron and steel from Siderúrgica del Orinoco S.A. (SIDOR). This company temporarily closed down some of its plants because of expansion work being carried out to raise its installed capacity from 1 million to 5 million tons.

The Aluminio del Caroní S.A. (ALCASA) plant also recorded a drop in output, of just over 13%, for the same reason: it is raising its annual capacity to 120,000 tons of primary aluminium. Meanwhile, satisfactory progress is being made on work to establish the C.A. Venezolana de Aluminio (VENALUM) plant, which was scheduled for completion during 1978. The capacity of the new plant will be 280,000 metric tons of primary aluminium.

In the chemical branch, the State enterprise NITROVEN raised output by more than 40%, but Petroquímica Venezolana S.A. suffered a reduction of almost half compared with 1976, especially in the fertilizers branch, and was obliged to resort to imports.

/There was

There was moderate growth in the capital goods industries: production of motor vehicles, the most important such industry, increased slightly, but much less than in the previous two years. One reason was that imports of motor cars and commercial vehicles reached very high levels in 1977.

In 1977 a number of important organizational decisions were taken affecting the manufacturing sector.

With regard to the State enterprises, mention should be made of the conversion of the Instituto Venezolano de Petroquímica into a limited company, Petroquímica Venezolana S.A., which will be closely linked to PETROVEN in the supervision and execution of its strategic production functions. In addition, the firms Ferrominera del Orinoco and SIDOR were authorized to set up an enterprise called C.V.G. International to market their output internationally.

In the motor industry various measures were introduced to overcome the delay in the motor vehicle parts and components integration programme and to stimulate the industries supplying motor industry inputs, especially engines and castings. Negotiations were also begun to establish two plants to produce six-cylinder gasoline engines. The policy in this field has been directed towards production of four-cylinder and six-cylinder (instead of eight-cylinder) motor vehicles in order to achieve lower fuel consumption. A particularly important event was the signature of Decision 120 of the Commission of the Cartagena Agreement, initiating an ambitious programme for the development of the motor industry which includes allocations for the manufacture of vehicles and spare parts, a common external tariff, trade liberalization and a broad range of agreements for assembly, joint production arrangements and complementation.3/

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3/ The projects allotted to Venezuela were: one A3 model, with four cylinders; two A4 models, with six cylinders; one farm vehicle model; one B3 truck model, between 9 1/2 and 17 tons GVW; one B4 truck model of over 17 tons GVW; and tractors. Venezuela is to co-operate with Bolivia in assembling B1 trucks of up to 5 tons, with Ecuador in producing B1 trucks of between 3 and 4 1/2 tons, and with Peru and Colombia in producing motorcycles, medium-sized diesel engines and axles for heavy and medium trucks.

The principal features of finance to manufacturing industry were a fall of about 16% in resources allocated by the principal State credit agencies <sup>4/</sup> for medium-term and long-term investment, and the small share of the private financial sector in the total. The marked decline in credit allocated by the State during the year was largely a result of the exhaustion of the financial allocations of the special agencies such as the Fondo de Crédito Industrial and insufficient inflows of money from repayments of capital and interest. The branches which absorbed the bulk of the credit available were traditional industries, especially food, textiles, non-metallic minerals, basic iron, steel and industrial chemicals.

During 1977 the Venezuelan Investment Fund (FIV) disbursed industrial credits or grants totalling 3.7 billion bolívares, 47% more than in the previous year. Almost 50% of the funds approved were destined for the SIDOR expansion and modernization programme, and a further 20% for VENALUM; the remainder went to ALCASA and various projects for the production of gold, cement, high-quality steel, merchant vessels, salt, pulp and paper.

Finally, various industrial enterprises were set up in 1977 to carry out important basic projects. Special mention should be made of the Interalumina firm, with capital of 750 million bolívares, 85% contributed by the State and 15% by the Swiss company which is to supply the technology. The alumina production capacity will be 1 million tons a year, to supply the ALCASA and VENALUM primary aluminium plants, and the surplus amounting to 15% of production will be exported. It was initially planned to import bauxite from certain Caribbean countries, but in the middle of the year a large deposit was discovered in Bolívar State with high bauxite content and low levels of impurities. According to preliminary estimates, the reserves exceed 500 million tons, with an alumina content of over 50%. The facilities required to mine the deposit and transport the bauxite to Ciudad Guayana, where the alumina plant is to be located, should be ready by 1980.

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<sup>4/</sup> The Corporación de la Pequeña y Mediana Industria, the Fondo de Crédito Industrial and the Corporación Venezolana de Fomento. No figures were available for the Banco Industrial de Venezuela.



(v) Construction. In 1977 construction expanded at a high rate (17%) for the third year in succession (see table 3). The continued growth was basically due to the increasing number of public sector infrastructure and industrial projects provided for in the Fifth National Plan. Most of the expansion was in the interior of the country.

The strong growth in the sector in 1977 led, as it had done in the previous two years, to a shortage of materials and skilled labour. In order to cope with this situation it was necessary to import cement, consumption of which rose by 20% during the year, and other materials such as parquet and flooring tiles. Imports of prefabricated houses and other buildings also increased. In 1977 imported cement represented 29% of apparent consumption, whereas up to 1974 there had been practically no cement imports.

The shortage of skilled labour was partly remedied by importing large quantities of machinery and equipment. In addition, an agreement was signed with the Intergovernmental Committee for European Migrations (CIME) under which 2,000 highly skilled workers from Spain, Italy and Portugal are to immigrate to Venezuela.

Construction of housing by the private sector has greatly expanded in recent years. In 1977 the number of units built rose by 10%, while there was an increase in value of nearly 19%. The corresponding figures for 1976 were 39 and 58% (see table 7).

Various steps were taken in 1977 to redirect the loan policies of the Banco Hipotecario and the finance companies in favour of low-cost housing, in an effort to reduce the speculation which had become widespread in this sector in recent years, with housing becoming so expensive that prices sometimes reached 1,500 dollars a square metre, while the prices of offices were even higher.

Under the new arrangements, 25% of allocations for housing must be set aside for low-cost housing with a unit price of not more than 150,000 bolívares (just over 31,000 dollars) and for educational and social welfare establishments. A further 25% must be reserved for housing costing not more than 250,000 bolívares, and 25% for housing costing 500,000 bolívares or less. In addition the rate of profit on sales of dwellings, commercial premises and offices for which mortgages have been granted must not exceed 30% of the valuation at the time of the initial sale.

Table 7

VENEZUELA: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	1975	1976	1977 <sup>a/</sup>	Growth rates		
					1975	1976	1977 <sup>a/</sup>
<b>Construction of dwellings</b>							
(units)	55 778	61 383	67 696	65 119	10.1	10.3	-3.8
Public sector	31 405	35 380	31 491	25 210	12.7	-11.0	-19.8
Private sector	24 373	26 003	36 205	39 909	6.7	39.2	10.2
<b>Value of construction of dwellings by the private sector</b>							
(millions of bolivares)	1 970	2 990	4 715	5 589	51.8	57.7	18.5

Source: President of Venezuela, Mensaje al Congreso de la República, March 1978.

<sup>a/</sup> Preliminary figures.

(c) Employment

The vigorous growth of the Venezuelan economy has brought with it a marked improvement in employment. In 1977 employment levels rose by 5%, a rate roughly equal to that of 1976, while unemployment dropped from 6% in 1976 to 5%.

Employment grew most in construction, transport and finance. It continued to fall in electricity, gas and water, and remained constant in the agricultural sector (see table 8). Employment in agriculture has been showing a long-term downward tendency despite a relatively large increase in output. This is because greater mechanization and more intensive use of better farming techniques have displaced part of the labour force to other activities.

The unemployment rate dropped in 1977 in all economic sectors except electricity, gas and water, where there was a small increase. Unemployment was highest in the construction sector (10%), as has traditionally been the case. In regional terms, the highest rates of unemployment occurred in the Zulia and North-East regions (6.1 and 6.9% respectively). In contrast, unemployment in the metropolitan area was very low, at 4.7%.

In addition to the sharp increase in employment, there has been a marked improvement in recent years in certain demographic and health indicators. The mortality and infant mortality rates fell from 6.8 and 53 per thousand in 1973 to 6 and 42 per thousand respectively in 1977. Over the same period there was an appreciable increase in the number of hospital beds and vaccinations (see table 9).

3. The external sector

(a) External trade

(i) Trade in goods. In 1977 the surplus on trade in goods continued its decline from the peak attained in 1974 as a result of the extraordinary change in world oil prices. In 1977 the surplus was 1,115 million dollars, 61% less than in 1976 and 84% less than in 1974. The fall in the surplus in 1977 was due, as in the previous year, to relatively slow growth in exports together with a veritable explosion of imports (see table 10).

/Table 8

Table 8  
VENEZUELA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	Employment					Unemployment					
	Thousands			Growth rates		Thousands			Percentage of the labour force		
	1975	1976	1977	1976	1977	1975	1976	1977	1975	1976	1977
1. <u>Production of goods</u>	<u>1 517</u>	<u>1 595</u>	<u>1 677</u>	<u>5.1</u>	<u>5.2</u>	<u>90</u>	<u>98</u>	<u>84</u>	<u>5.6</u>	<u>5.8</u>	<u>4.8</u>
Agriculture	682	695	695	1.9	-	19	18	14	2.7	2.5	2.0
Mining	45	43	46	4.9	7.5	2	2	2	4.8	4.6	4.2
Manufacturing	537	577	607	7.3	5.2	31	40	32	5.4	6.8	5.0
Construction	254	280	329	10.3	17.6	38	38	36	13.0	11.8	9.9
2. <u>Basic services</u>	<u>240</u>	<u>252</u>	<u>271</u>	<u>5.0</u>	<u>7.4</u>	<u>14</u>	<u>12</u>	<u>10</u>	<u>5.7</u>	<u>4.7</u>	<u>3.6</u>
Electricity, gas, water	43	41	38	-6.0	-6.7	2	2	2	5.3	3.6	4.0
Transport and communications	197	211	233	7.5	10.1	12	11	8	5.7	4.9	3.5
3. <u>Other services</u>	<u>1 701</u>	<u>1 798</u>	<u>1 881</u>	<u>5.7</u>	<u>4.6</u>	<u>128</u>	<u>94</u>	<u>82</u>	<u>7.0</u>	<u>5.0</u>	<u>4.2</u>
Commerce	646	673	699	4.2	3.8	38	34	30	5.6	4.8	4.1
Finance	123	136	150	10.8	9.8	8	7	7	5.7	5.0	4.5
Other services	927	985	1 029	6.2	4.5	39	40	36	4.1	3.9	3.7
Unspecified	5	3	4	-30.0	6.1	43	13	9	90.1	80.1	71.7
4. <u>Persons seeking work for first time</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>35</u>	<u>30</u>	<u>24</u>	<u>...</u>	<u>...</u>	<u>...</u>
<u>Total</u>	<u>3 459</u>	<u>3 645</u>	<u>3 829</u>	<u>5.4</u>	<u>5.0</u>	<u>270</u>	<u>234</u>	<u>200</u>	<u>7.2</u>	<u>6.0</u>	<u>5.0</u>

Source: Ministry of Development.

Table 9  
VENEZUELA: SOME DEMOGRAPHIC AND HEALTH INDICATORS

	1973	1974	1975	1976	1977 <sup>a/</sup>
Mortality rate (per thousand)	6.8	6.5	6.2	6.2	6.0
Infant mortality rate (per thousand)	55.0	45.7	43.7	44.5	42.0
Number of hospital beds <sup>b/</sup>	36 427	36 207	38 026	38 322	41 967
Vaccinations (millions)	7.8	8.0	6.9	8.6	8.5
Polio vaccinations	3.6	2.7	2.8	2.8	2.7

Source: President of Venezuela, Mensaje al Congreso de la República, March 1978.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Maximum capacity.

Table 10  
VENEZUELA: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
<b>Current account</b>						
Exports of goods and services	3 425	5 105	11 721	9 489	10 071	10 713
Goods FOB	3 153	4 701	11 085	8 832	9 419	9 902
Services	272	404	636	657	652	811
Transport	105	163	310	274	132	250
Travel	73	119	174	180	219	240
Imports of goods and services	2 887	3 374	5 222	7 083	8 465	11 157
Goods FOB	2 223	2 626	4 100	5 461	6 544	8 787
Services	664	748	1 122	1 622	1 921	2 370
Transport	317	342	468	776	1 030	1 380
Travel	182	198	289	420	560	590
Net payments of profits and interest on foreign capital	-473	-833	-640	-23	105	65
Profits	-456	-831	-819	-448	-279	-275
Interest	-17	-2	179	425	384	340
Net private transfer payments	-89	-105	-130	-146	-192	-215
Balance on current account	-24	793	5 729	2 237	1 519	-594
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	24	-793	-5 729	-2 237	-1 519	594
(a) Net external non-compensatory capital	-132	212	-560	714	313	
Direct investment	-376	-85	-343	355	-828	
Long- and medium-term loans	236	212	140	314	1 504	
Amortization payments	-111	-132	-311	-323	-605	
Short-term liabilities	124	223	18	398	303	515
Official transfer payments	-5	-6	-64	-30	-61	
(b) Domestic non-compensatory capital or assets	-126	-38	-446	-632	-3 282	
(c) Errors and omissions	455	-355	-260	392	1 519	
(d) Allocation of SDRs	38	-	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-211	-612	-4 463	-2 711	-69	79
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	8	4	8	...
Amortization payments	-3	-2	-	-	-	...
Variation in gross international reserves (minus sign signifies an increase)	-207	-609	-4 471	-2 715	-77	...
Foreign exchange reserves (Minus sign signifies an increase)	-169	-609	-4 120	-2 221	64	...
Gold reserves (minus sign signifies an increase)	-	-	-349	-490	-139	...
SDRs (minus sign signifies an increase)	-38	-	-2	-4	-2	...

Sources: 1972-1976: International Monetary Fund, Balance of Payments Yearbook, vol. 28, December 1977.  
1977: CEPAL, on the basis of official statistics.

/The value

The value of exports in 1977, at 9.9 billion dollars, was 5% higher than in 1976. This figure, though below that of 1974, is more than double that of 1973. Growth in exports in 1977 was accounted for wholly by a 12% rise in the unit price of sales, since volume fell by 6% (see table 11).

The value of exports of petroleum, which make up 95% of total income from exports, increased by almost 6% in 1977, compared with 4% in 1976. The moderate increase in sales was the result of a rise of about 11% in the average sales price, which more than offset a drop of 6% in the volume exported. Iron ore, the second most important export product, fell 29% in value, principally because of a lower volume of sales abroad.

Non-traditional exports have shown a definite tendency to expand since 1972. In value terms they increased by 13% in 1977, and average annual growth for the period 1972-1977 was almost 19%. Nevertheless, their share in total exports has remained small, reaching only a little over 3% in 1977, which is more or less the same share as in 1970 (see table 12).

Growth in non-traditional exports has been influenced by the policy of incentives applied by the Government during the present decade, especially as regards financing. The year 1970 saw the promulgation of the Export Incentives Act and the establishment of the Export Financing Fund, which functions as part of the Central Bank.<sup>5/</sup>

According to Central Bank figures, the value of goods exported under the incentives scheme in the first half of 1977 was 97 million dollars, while the value of the incentives was 19 million dollars. The non-traditional exports which have shown greatest growth in the past few years are petrochemicals (explosives, ammonia, carbon black, urea), metal manufactures and machinery (aluminium and steel tubes) and food products (shellfish, fish and vegetables), which together make up about half of all non-traditional exports.

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<sup>5/</sup> The first such Act instituted a single incentive system for exports of non-traditional goods based on value added to the export product. The second Act set up a fund to carry out short-term, medium-term and long-term financing operations, to effect fixed investment in exporting enterprises and to provide them with working capital and finance to cover exporting costs (freight, insurance, etc.).

Table 11

VENEZUELA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977
<u>Growth rates</u>						
<b>Exports of goods</b>						
Value	2.0	49.1	135.8	-20.3	6.6	5.1
Volume	-4.7	4.5	-11.6	-25.4	0.6	-6.1
Unit value	7.0	42.7	166.7	6.8	6.0	11.9
<b>Imports of goods</b>						
Value	17.6	18.2	56.1	33.2	19.8	34.3
Volume	11.1	0.1	25.7	14.8	9.9	21.8
Unit value	5.9	18.1	24.2	16.1	9.0	10.2
<b>Terms of trade</b>	1.1	20.8	114.7	-8.0	-2.7	1.5
<u>Indexes (1970 = 100)</u>						
<b>Terms of trade</b>	118.7	143.3	307.7	283.2	275.5	279.7
<b>Purchasing power of exports of goods</b>	109.2	143.3	268.3	185.7	181.0	175.4
<b>Purchasing power of exports of goods and services</b>	108.0	136.3	258.8	177.6	173.8	165.9

Source: CEPAL, on the basis of official figures.



Table 12  
VENEZUELA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977	1970	1977	1975	1976	1977
<b>Principal exports</b>	<b>11 035</b>	<b>8 718</b>	<b>9 117</b>	<b>9 563</b>	<b>96.8</b>	<b>96.6</b>	<b>-21.0</b>	<b>4.6</b>	<b>4.9</b>
Petroleum and petroleum products <u>a/</u>	10 762	8 493	8 861	9 381	94.1	94.7	-21.1	4.3	5.9
Iron ore	273	225	256	182	2.7	1.9	-17.6	13.8	-28.9
<b>Others products</b>	<b>214</b>	<b>255</b>	<b>301</b>	<b>339</b>	<b>3.2</b>	<b>3.4</b>	<b>19.2</b>	<b>18.0</b>	<b>12.6</b>
<b>Total</b>	<b>11 249</b>	<b>8 973</b>	<b>9 418</b>	<b>9 902</b>	<b>100.0</b>	<b>100.0</b>	<b>20.2</b>	<b>5.0</b>	<b>5.1</b>

Sources: Central Bank of Venezuela and Instituto de Comercio Exterior.

a/ Calculated on the basis of the sale price of petroleum.

/Imports of

Imports of goods, for their part, recorded an exceptional increase for the fourth consecutive year. In 1977 a rise of 34% brought their value to more than three times the 1973 level. The greater part of the increase was due to higher volume, since the unit price rose by 10%. The rise in the volume of imports in 1977 was much higher than in any other year of the present decade except 1974 (see table 11).

In 1977, as in the previous year, the large volume of external trade led to serious congestion in all the country's ports, which lessened only at the end of the year when various projects to expand the principal ports were completed.

The extraordinary increase in the value and volume of exports was a result of growing overall domestic demand. This, in turn, was stimulated by requirements of equipment and machinery for the implementation of the Government's ambitious programmes in industry and basic infrastructure. Moreover, as already noted, there were substantial imports of food products - amounting to more than 440 million dollars - to offset the fall in agricultural production in 1976. Finally, imports of luxury goods also rose considerably. For example, more than 40 million dollars worth of whisky was imported, as well as about 10,000 luxury motor cars worth roughly 70 million dollars.

In addition 5,000 pick-up trucks, 3,000 heavy and medium trucks and 5,000 buses were imported with a total value of more than 60 million dollars. If imports of unassembled vehicles and parts and components are added to imports of assembled vehicles, the total value comes to the large sum of about 750 million dollars, or nearly 9% of the total value of imports.

The structure of imports also changed in 1977, with increases in the shares of capital goods and food products (see table 13). As far as origin is concerned, a very high proportion of imports (47%) came from the United States, which is also the main market for Venezuela's exports. Other countries of origin were the Federal Republic of Germany (8%), Italy (6%), the United Kingdom (4%), Canada (4%), France (3%) and Spain (3%).

/Since the

Since the rise in the unit price of imports was slightly smaller than that for exports, the terms of trade improved by just over 1% in 1977. The absolute level of the terms-of-trade index was 9% below the 1974 figure, but more than double the figure for 1972 (see table 11). As a result, although Venezuela has experienced a deterioration in its terms of trade since 1974, its relative position continues to be very favourable.

However, a more serious deterioration in external trade is revealed by another indicator - the purchasing power of exports. In 1977 this index stood 35% below the high point reached in 1974 and only 60% above its 1972 level. The worsening since 1974 reflects both the evolution of the terms of trade and the lower volume of exports.

(ii) Services. Since 1974 the deficit on the services account has increased at a rapid rate. In 1977 the deficit rose by almost 23% to 1,560 million dollars, more than four times as high as in 1973.

This rapid increase is attributable to higher payments for transport, largely due to the greater volume of imports, and for travel abroad by Venezuelans (see table 10). The growth observed for travel in the four years 1973-1977 reflects a significant increase in expenditure per traveller: total payments rose by 200%, while the number of travellers was only 35% higher.

If the balance on services is added to the balance on goods the total external trade deficit in 1977 was 444 million dollars, an unprecedented sum in the modern history of the country.

(b) Factor payments, transfers and the current account balance

For the second year running Venezuela recorded a surplus on factor payments. The surpluses, which are unusual for a developing country, derive from lower remittances of profits, as a result of the nationalization of the foreign oil companies, and higher income in the form of interest on financial investments abroad. However, in 1977 the surplus was 38% smaller than in 1976, following a fall in net income from payments of interest. The reasons were a rise in interest paid on the external debt and lower income from investment in assets abroad, since some of the assets belonging to FIV had to be converted into national currency to finance domestic public investment.

Table 13

VENEZUELA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977	1970	1977	1975	1976	1977
Consumer goods	442	557	713	1 010	15.4	11.5	28.0	27.1	31.1
Intermediate goods	2 570	3 474	3 795	4 921	58.0	56.0	34.8	11.0	34.0
Capital goods	864	1 431	2 035	2 856	26.6	32.5	63.4	33.8	41.6
<u>Total</u>	<u>3 876</u>	<u>5 462</u>	<u>6 543</u>	<u>8 787</u>	<u>100.0</u>	<u>100.0</u>	<u>40.1</u>	<u>19.8</u>	<u>34.3</u>

Sources: Central Bank of Venezuela and Instituto de Comercio Exterior.

Traditionally Venezuela has a negative balance on net private transfers, and in 1977 this deficit increased by 12% to 215 million dollars. Together, the balances on external trade, factor payments and net private transfers thus give a large deficit of almost 600 million dollars on the current account in 1977. This deficit arose after two years of progressive diminution of the surplus generated by the high oil prices (see table 10). On only two other occasions in the present decade, 1970 and 1972, has the current account gone into deficit, although to a much smaller degree.

(c) The capital account and the balance of payments

There is no information available on the specific composition of flows of non-compensatory capital in 1977. However, it is known that the Government played an important role in the inflow of capital into the country. Following the strategy instituted in 1976, the Government negotiated large loans with foreign banks and successfully placed bonds on the markets of the United States, London and Japan. Table 14 gives figures on the value of the loans contracted. As can be seen, the total was more than 2 billion dollars in 1977, almost twice the 1976 figure. The extent of the borrowing in 1976 and 1977 can be appreciated more readily if it is borne in mind that in 1975 the Government's total external debt amounted to only a little over 1 billion dollars.

There were two reasons for the loans: the requirements of the official debt refinancing programme, and the need to finance the ambitious programme of investment in basic production sectors. In view of their policy of conserving basic resources and the slackness in the world oil market, the authorities were fully aware that income from exports would not cover all the costs of this programme.

The figures given for government borrowing refer to loans contracted and not to disbursements, and therefore do not necessarily correspond to the actual inflow of capital under that heading. Furthermore, inflows from government borrowing were partially offset by amortization payments on the public debt and by investment abroad, which in some cases represented

/Table 14

Table 14

VENEZUELA: BORROWING IN THE INTERNATIONAL CAPITAL MARKET

(Millions of US dollars)

Year	Bonds	Loans on the Eurocurrency market a/	Total
1974	2	50	52
1975	-	200	200
1976	-	1 129	1 129
1977	438	1 650	2 088

Source: World Bank, Borrowing in International Capital Markets, March 1978.

a/ Announced loans.

/commitments under

commitments under the official programme of international financial co-operation. Net flows of capital to the private sector, according to preliminary information, recorded a positive balance after the large deficit of 1976, which was largely the result of an outflow of foreign capital because of the nationalization of the petroleum industry.

According to preliminary estimates of the total net movement of non-compensatory capital (including errors and omissions), there was a positive balance of 515 million dollars in 1977, which contrasted with the deficit of over 1.4 billion dollars in 1976 (see table 10). However, the net flow of capital was insufficient to cover the current account deficit, and consequently the balance of payments showed an overall deficit of 79 million dollars for the first time in 10 years.

In addition to the deficit on the balance of payments gross international reserves dropped 4% compared with the previous year. On 31 December 1977 the reserves totalled 8.2 billion dollars, almost all of which was in the hands of the State. The reserves amply covered imports, since they were equivalent to nearly 9 months' purchases of goods and services abroad at the 1977 rate.

(d) International financial co-operation

During 1977 Venezuela pursued its policy of financial co-operation with other developing countries. This policy gained particular importance as from 1974, when large surpluses began to accumulate as a result of higher oil prices on international markets. Its principal objectives are the promotion of international solidarity with other developing countries in order to form a common front to uphold the prices of raw materials; assistance for the development of the productive potential of the countries of Latin America; stimulation of Latin American integration, and promotion of trade between Venezuela and the other countries of the continent.

In accordance with this policy, Venezuela allocated 4.3 billion dollars for international financial co-operation between 1974 and 1977. This figure is equivalent to 3.6% of the GDP in the past four years, and shows that the country is granting the developing countries much more financial assistance than the industrialized countries, whose contribution barely reaches 0.7% of their GDP.

/Financial co-operation

Financial co-operation is organized through various institutions, but the most important are the FIV and the Central Bank, through which more than four-fifths of the resources are channelled (see table 15).

During 1977 financial co-operation funds committed by the various Venezuelan institutions totalled just over 900 million dollars, while disbursements amounted to 560 million dollars. The total disbursed in the period 1974-1977 came to 2.7 billion dollars.

(e) External debt

Figures on the external public debt are available only up to the end of 1976, when the total debt was nearly 3 billion dollars. About 40% of the debt was owed to private banks. As a result of government borrowing in 1977, there was a considerable increase both in the total debt and in the share of private banks.<sup>6/</sup>

The apparent debt burden in 1976 was light, as is indicated by the debt servicing ratio, which was barely 4% (see table 16). However, if Venezuela continues to borrow at the same rate as in the past two years, the debt and the servicing payments could reach burdensome levels.

The emergence of a trade deficit in the balance of payments, taken together with the poor prospects for an immediate rise in world demand for petroleum, suggest that if Venezuela does not limit growth of its imports it could require increasing quantities of finance. This is not to say that the country is not in a position to borrow: with international reserves of 8 billion dollars and prospects of a new flow of foreign currency from some of the new projects under way, the country has a clear capacity to borrow further abroad. At the same time, the financing will have to come in large measure from the private international banks, whose credit terms are both severe and sensitive to economic changes both in the world as a whole and in Venezuela. Moreover, the foreign currency yield per dollar invested in basic sector projects (and in the oil-bearing area of the Orinoco) will be substantially lower than that usually obtained in the traditional petroleum sector.

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<sup>6/</sup> However, taking into account its deposits in the international banking system, Venezuela had a net balance of assets with the banking system totalling 3.5 billion dollars at the end of the first half of 1977 (including short-term transactions). See Bank for International Settlements, Press Review, 16 November 1977.



Table 15

VENEZUELA: INTERNATIONAL FINANCIAL CO-OPERATION

(Millions of US dollars)

	Committed			Disbursed		
	1974- 1976	1977	Total	1974- 1976	1977	Total
<b>I. Multilateral co-operation</b>	<b>3 115</b>	<b>697</b>	<b>3 812</b>	<b>1 997</b>	<b>253</b>	<b>2 250</b>
1. <u>Central Bank of Venezuela</u>	897	580	1 477	809	2	811
International Monetary Fund a/	787	580	1 367	782	2	784
Swap with Central America (integration) b/	50	...	50	27	-	27
Andean Fund (integration) b/	60	...	60	...	...	...
2. <u>Venezuela Investment Fund</u>	1 690	5	1 695	955	219	1 174
World Bank	500	...	500	500	...	500
Inter-American Development Bank	500	...	500	190	100	290
Caribbean Development Bank	25	...	25	8	6	14
Central American Bank for Economic Integration	40	...	40	20	10	30
Andean Development Corporation	30	...	30	...	...	...
Inter-American Savings and Loan Bank	...	5	5	...	3	3
Central America (petroleum and coffee)	592	...	592	238	100	338
Cafés Suaves Centrales S.A.	3	...	3	...	...	...
3. <u>Ministry of Finance</u>	348	112	460	79	32	111
Caribbean Development Bank	10	...	10	10	...	10
OPEC Fund	112	112	224	...	32	32
Inter-American Development Bank c/	156	...	156	...	...	...
IDB bond issue d/	23	...	23	23	...	23
World Bank bond issue d/	23	...	23	23	...	23
Andean Development Corporation bond issue d/	23	...	23	23	...	23
4. <u>Ministry of Foreign Affairs</u>	180	...	180	153	...	153
United Nations Emergency Fund	100	...	100	100	...	100
United Nations Special Account	80	...	80	53	...	53
<b>II. Bilateral co-operation</b>	<b>375</b>	<b>169</b>	<b>494</b>	<b>137</b>	<b>309</b>	<b>446</b>
1. <u>Central Bank of Venezuela</u>	125	-	125	29	76	105
Costa Rica	20	...	20	10	10	20
Honduras	4	...	4	4	...	4
Nicaragua	3	...	3	3	...	3
Swap with Peru	50	50	50	...	50	50
Dominican Republic (ordinary and additional) b/	48	48	48	12	16	28
2. <u>Venezuelan Investment Fund</u>	191	119	310	91	208	298
Costa Rica	20	...	20	20	...	20
Peru (deposits and securities)	61	77	138	33	100	133
Jamaica (deposits and economic co-operation)	50	20	70	38	33	70
Dominican Republic	60	...	60	...	60	60
Portugal	...	23	23	...	15	15
3. <u>Ministry of Finance</u>	53	-	53	11	25	36
Bolivia	22	...	22	6	...	6
Guatemala	6	...	6	6	...	6
Ecuador (bond issue) d/	25	...	25	...	25	25
Instituto de Comercio Exterior	7	...	7	7	...	7
Various programmes in the Caribbean	7	...	7	7	...	7
<b>Grand total</b>	<b>3 490</b>	<b>914</b>	<b>4 306</b>	<b>2 135</b>	<b>561</b>	<b>2 696</b>

Source: Venezuelan Investment Fund.

a/ Oil facility 780 million, subsidy account 7 million and supplementary credit 580 million.

b/ For economic integration.

c/ Of this, 60 millions corresponds to subscription of ordinary capital.

d/ Through the securities market.

/Table 16

Table 16

VENEZUELA: EXTERNAL PUBLIC DEBT a/

(Millions of US dollars)

	Disbursements at end of year:				
	1972	1973	1974	1975	1976
External debt	1 419	1 540	1 497	1 272	2 970
Debt servicing	213	310	501	539	409
Amortization payments	149	207	379	435	287
Interest	64	103	122	104	122
Debt servicing ratio <u>b/</u>	6.2	6.1	4.3	5.7	4.1

Source: CEPAL, on the basis of official figures.

a/ Medium-term and long-term debt, including guaranteed debt.

b/ Debt servicing divided by export revenue in the corresponding year.

A reduction in the rate of growth of imports - which in absolute terms have reached the high level of 826 dollars per head - by means of greater control of non-essential purchases and revision of the investment programme would naturally bring with it a corresponding drop in dependence on external borrowing and foreign banks. Indeed, the Government's next task will probably be to seek a proper balance between investment, consumption and growth, on the one hand, and external debt on the other.

#### 4. Prices, wages and salaries

In 1977 the level of prices rose slightly faster than in 1976. The change between annual averages for consumer prices in the metropolitan area was 7.8%, compared with 7.7% in 1976, while the change in annual averages for wholesale prices was 10.8% compared with 7.2% the previous year. In both categories the change from December to December was somewhat larger than the change in annual averages (see table 17).

Among the items in the consumer price index, food increased substantially more than in 1976, as a result of pressures caused during the first half of the year by shortages of agricultural products. Clothing rose rather less than in 1976, largely because the Government froze clothing prices in July 1977.

In contrast to what happened in 1976, the wholesale price index showed that prices of domestic products increased by more than those of imports. The greatest upward pressure on the index was caused by agricultural products, which rose in price by 23.6% in the first 11 months of 1977, compared with 12.4% the same period of 1976. The sharp increase was the result of the supply problems which arose in the first half of the year and adjustments in the minimum prices for some domestic agricultural products.

In the Principal cities in the interior - Ciudad Guayana, Mérida, Maracaibo, Valencia and Puerto La Cruz-Barcelona - the cost-of-living index rose faster than in the Caracas metropolitan area. In Ciudad Guayana, in particular, the rise was more than double that recorded in Caracas.

/Table 17

Table 17  
VENEZUELA: EVOLUTION OF PRICES

	1972	1973	1974	1975	1976	1977
<u>Change between annual averages</u>						
Consumer prices <u>a/</u>	2.9	4.1	8.3	10.2	7.7	7.0
Food	4.9	7.6	12.7	14.7	8.8	12.3
Clothing	2.9	7.7	20.2	17.0	16.5	10.0
Wholesale prices	3.5	6.6	16.7	13.7	7.2	10.8 <sub>b/</sub>
Domestic products	2.7	7.2	16.8	14.3	8.0	13.4
Imported products	4.5	5.7	16.7	12.8	6.1	6.9
<u>Change from December to December</u>						
Consumer prices <u>a/</u>	3.5	5.1	11.6	8.0	6.9	8.1
Food	7.4	8.1	18.3	8.7	8.2	14.8
Clothing	9.3	7.9	21.8	19.3	10.4	8.3
Wholesale prices	2.7	11.0	19.9	8.2	8.8	12.1 <sub>c/</sub>
Domestic products	3.7	12.1	17.0	10.3	7.6	17.0
Imported products	2.1	10.3	21.9	5.4	10.4	5.1

Sources: President of Venezuela, Mensaje al Congreso de la República, March 1976, 1977, 1978; Central Bank of Venezuela, Informe económico, 1972, 1973, 1974 and 1975.

a/ Cost-of-living index for the Caracas metropolitan area.

b/ January to November.

c/ Change from November to November.

Apart from special factors such as the shortage of food supplies in the first few months of 1977, the inflationary pressure was due to increases in monetary liquidity, lending by the banks, and public expenditure. These increases in turn generated substantial growth in total demand, which, as in previous years, was not offset by a similar trend in domestic supply.

The Government adopted various measures to hold back price rises and improve domestic supply.

In 1977 the list of products subject to price controls was extended, and the prices of various types of products and services were frozen. The effectiveness of the price control system can be appreciated by comparing the behaviour of controlled prices with that of prices subject to market forces. For food products included in the cost-of-living index, for example, the cumulative changes for the 12 months ending in December 1977 were 9.2 and 7.9% for regulated and controlled prices respectively, and 15% for prices subject to supply and demand.

The other measures adopted in 1977 included the elimination of import taxes on various products which were in short supply, the exemption of meat and live animals from payment of customs duties and the granting of priority to unloading of agricultural products purchased abroad.

According to Central Bank figures, real wages and salaries rose by 9% in 1977. As can be seen from table 18, this change followed even larger rises in the period 1974-1976.

## 5. Monetary and fiscal policy

### (a) Monetary trends

The money supply rose by 24% in the 12 months ending with the third quarter of 1977, and a roughly similar rate is estimated for the end of the year. These figures show a substantial acceleration compared with 1976, when the growth rate was 15%, but in 1975 the rate was 52% (see table 19).

The expansion in the money supply occurred principally in the first half of the year, as can be seen from the fact that the rate of increase in the 12 months to June was almost 29%. The source of the rise was a large increase in the net international reserves of the monetary system and a very substantial rise in domestic credit, especially to the private sector.

Table 18  
VENEZUELA: EVOLUTION OF WAGES AND SALARIES

	1974	1975	1976	1977 <sup>a/</sup>
<u>Indexes (1970 = 100)</u>				
Wages and salaries				
Nominal	174.6	219.0	260.0	306.3
Real <sup>b/</sup>	145.7	165.8	182.7	199.7
<u>Growth rates</u>				
Wages and salaries				
Nominal	12.7	25.4	18.7	17.8
Real	17.8	13.4	10.2	9.3

Source: Central Bank of Venezuela.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Annual wages and salaries deflated by the consumer price index for the corresponding periods.

Table 19  
VENEZUELA: MONETARY POSITION

	End-year balance in millions of bolívars					Growth rates		
	1974	1975	1976	1976a/	1977a/	1975	1976	1977b/
1. <u>Money</u>	16 297	24 835	28 436	25 264	31 418	52.4	14.5	24.4
Currency outside banks	3 366	4 723	5 820	4 707	6 068	40.3	23.2	28.9
Demand deposits	11 908	17 503	20 848	18 745	23 810	47.0	19.1	27.0
2. <u>Factors of expansion</u>	31 412	47 152	58 335	50 679	63 203	50.1	23.7	24.7
Foreign assets (net)	27 588	38 411	37 086	34 262	34 757	39.2	-3.4	1.4
Domestic credit	3 824	8 741	21 249	16 417	28 446	128.5	143.1	73.3
Government (net)	-16 397	-20 992	-19 355	-19 225	-17 524	...	...	...
Official entities	526	555	505	512	400	5.5	-9.0	-21.9
Private sector	19 437	29 151	40 038	35 110	45 352	50.0	37.3	29.2
3. <u>Factors of absorption</u>	15 111	22 313	29 901	25 412	31 787	47.7	34.0	25.1
Quasi-money (savings and time deposits)	10 557	16 578	22 871	19 821	26 519	57.0	38.0	33.8
Other items (net)	4 554	5 735	7 030	5 591	5 268	25.9	22.6	-5.8

Source: International Monetary Fund, International Financial Statistics, March 1978.

a/ Balance at end of September.

b/ September 1976 - September 1977.

In July the Central Bank took a number of steps to deal with this situation. It raised the mandatory level of bank reserves to 75% of deposits of all kinds made by the State, and introduced a further mandatory reserve level equivalent to 42% of the increase in balances of time deposits and other non-current liabilities in foreign currency as at 30 June 1977, although the level was reduced to 35% in the case of demand liabilities in foreign currency or demand deposits or liabilities in national currency effected or contracted by non-resident natural or juridical persons. The purpose of these measures was to ensure that the banks' credit capacity should be more closely linked to private sources of domestic saving and to limit the expansionary effect of the inflow of external financial resources of a speculative nature.

At the end of September the money supply dropped slightly in absolute terms compared with August, and the 12-month growth rate fell a little as against the rate for the immediately preceding months. In view of the smaller net international reserves of the monetary system in the third quarter, and recognizing the need to increase liquidity in order to bring it in line with the traditional increase in economic activity in the final months of the year, the Central Bank decided at the end of October to introduce more flexibility into the rules for mandatory reserves. It therefore eliminated the additional requirements regarding demand deposits placed by public sector enterprises, and extended until February 1978 the period allowed to comply with the 75% reserves rule introduced in July, maintaining until the end of the year the figure of 65% prevailing in October.

Over the year as a whole the rise in money supply in 1977 was basically due to the growth of domestic credit. Credit to the private sector continued to increase rapidly, and there was less absorptive effect from net government borrowing. On the other hand, exchange rate operations helped to hold back the rate of growth in the money supply.

Towards the end of the year there was still a high degree of liquidity. The money supply balance of 31.4 billion bolívares in September was more than triple the balance in December 1972, and even if price rises are taken into account represents well over twice that figure.

/(b) Fiscal



(b) Fiscal trends

A look at the fiscal situation in 1977 shows that central government current and capital expenditure, taken together, are beginning to outpace the capacity to cover them with ordinary revenue. For the second successive year continued strong growth in expenditure led to a fiscal deficit, which was almost triple the previous year's deficit and was equivalent to 22% of total expenditure (see table 20).

The current revenue of the Government rose by only 6% in 1977. Although this rate represents a reversal of the downward trend which followed the extraordinary increase in revenue in 1974 as a result of the rise in oil prices, the growth was barely sufficient to compensate for the pace of domestic inflation.

The rise in revenue was due to higher tax receipts both from the petroleum sector (5%) and from other sectors (10%). The increase in income from petroleum followed two years of decline and occurred despite the continuing drop in levels of real activity in the sector. The higher revenue from other sectors represented a continuation of the upward trend which has been apparent for some time, but still makes up only 27% of total tax revenue. There is considerable potential for raising taxation outside the petroleum industry, since non-petroleum taxes were equivalent to only 5.5% of the non-petroleum product in 1976, slightly above the 5.2% recorded in the two years 1971 and 1972.

Current government expenditure rose by 19%, compared with rates of 13 and 27% in 1976 and 1975. Expenditure on wages and salaries, which made up more than 40% of the total, continued to grow a good deal faster than inflation: 17% compared with 20% in 1976 and 17% in 1975.

Capital expenditure continued to expand rapidly. Real investment by the central government grew by 37% in 1977, after a rise of 21% in 1976. There was also an extraordinary increase of 144% in transfers, largely as a result of investment by official entities in basic sectors. Financial investment, whose growth speeded up after 1974 because of the surplus revenue generated by petroleum, dropped by 62% in 1977 as a result of the relatively greater scarcity of fiscal resources.

Table 20

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE a/

	Millions of bolívares				Growth rates		
	1974	1975	1976	1977b/	1975	1976	1977b/
1. <u>Current income</u>	42 559	40 898	38 130	40 506	-3.9	-6.8	6.2
<u>Petroleum c/</u>	36 451	31 655	28 024	29 434	-13.2	-11.5	5.0
Direct	2 634	3 297	4 182	4 802	25.2	26.8	14.8
Indirect	2 378	3 216	3 778	4 718	35.2	17.5	24.9
Import duties	1 159	1 807	2 165	2 912	55.9	19.8	34.5
Other current income	1 096	2 730	2 146	1 552	149.2	-21.4	-27.7
2. <u>Current expenditure</u>	14 415	18 244	20 687	24 643	26.6	13.4	19.1
Wages and salaries	6 228	7 273	8 704	10 180	16.8	19.7	17.0
Economic subsidies	1 854	1 627	1 159	1 159	-12.2	-28.8	-
Other current expenditure	6 333	9 344	10 824	13 304	47.6	15.8	22.9
3. <u>Saving on current account (1 - 2)</u>	28 144	22 654	17 443	15 863	-19.5	-23.0	-9.1
4. <u>Capital expenditure</u>	10 835	12 330	13 456	17 848	13.8	9.1	32.6
Real investment	3 461	3 487	4 234	5 778	0.8	21.4	36.5
Transfers	4 889	5 062	4 141	10 101	3.5	-18.2	144.0
Financial investment	1 995	3 774	5 069	1 929	89.2	34.3	-62.0
Other capital expenditure	490	7	12	40	-98.5	60.8	233.6
5. <u>Expenditure on refinancing operations</u>	-	-	4 292	3 902	-	-	-9.1
6. <u>Expenditure on debt servicing</u>	4 269	1 771	3 636	5 301	-58.5	105.3	45.8
7. <u>Total expenditure (2 + 4 + 5 + 6)</u>	29 519	32 345	42 071	51 694	9.6	30.1	22.9
8. <u>Fiscal deficit (or surplus) (1 - 7)</u>	13 040	8 553	-3 941	-11 188	-34.4	...	183.9
9. <u>Financing</u>	-13 040	-8 553	3 941	11 188			
External	48	77	4 372	8 519			
Domestic	193	25	641	2 153			
Venezuela Investment Fund	-13 000	-7 532	-2 500	-			
Others	-281	-1 123	1 428	516			

Source: CEPAL, on the basis of official statistics.

a/ These figures are not comparable to those published in previous issues of the Survey, as a different method of calculations has been used.

b/ Preliminary figures.

c/ Including royalties.

As far as other expenditure is concerned, the Government continued the operations to refinance the public debt which it initiated on an extensive scale in 1976. Expenditure on servicing of the public debt also increased sharply in 1977 as a result of greater indebtedness on the part of the authorities and commitments resulting from the nationalization of the petroleum industry (see table 20). Payments under this last heading came to 1,358 million bolívars in 1977.

Table 21 gives an indication of the breakdown of total expenditure by economic sectors. It can be seen that since 1974 education and agriculture have enjoyed high priority. A high proportion of expenditure has also been channelled to transfers to decentralized bodies and public debt operations. In contrast to some members of the Organization of Petroleum-Exporting Countries (OPEC), Venezuela has clearly not channelled a disproportionate share of its revenues to military expenditure, which has remained moderate as compared with total expenditure and even shows a tendency to decline.

The greater part of the deficit incurred in 1977 was covered using external loans, but use was also made of domestic borrowing and Treasury reserves. No contributions were made to the FIV in 1977, as the surplus resources were absorbed in other fiscal activities (see table 20).

Table 21

VENEZUELA: BREAKDOWN OF TOTAL FISCAL EXPENDITURE

(Percentages)

	1974	1975	1976	1977
Basic functions of State administration	12.9	10.6	9.8	10.6
Defence	7.2	5.5	4.5	5.4
Hydrocarbons and mining	2.9	3.8	5.3	0.4
Agriculture	15.2	15.6	12.3	9.9
Industry	6.2	7.2	3.6	7.4
Education and science	15.1	17.3	15.6	16.4
Health and social security	8.9	8.7	8.7	12.7
Legal and social services	1.3	1.6	1.5	1.6
Transport	8.8	7.4	6.3	10.8
Urbanization	2.1	1.3	3.1	1.3
Information and tourism	0.3	0.5	0.7	6.5
Regional agencies	11.7	20.3	14.4	12.1
Debt servicing and refinancing	14.6	5.5	18.9	16.3
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL, on the basis of official statistics.

### Part Three

## ECUADOR: CHALLENGES AND ACHIEVEMENTS OF ECONOMIC POLICY IN THE EXPANSIONARY PHASE OF THE PETROLEUM INDUSTRY

### Introduction

An event of enormous significance for the development of the Ecuadorian economy has been the production of oil which started on a large scale in 1972. This event, coupled with the rise in fuel prices at the end of the following year, brought an unusually large inflow of foreign exchange compared with the minimal external resources traditionally received by the country.

This situation is therefore the reverse of that commonly found in most developing countries, whose insufficient capacity to import is one of the most serious limiting factors in increasing capital formation and promoting economic growth

The repercussions of these developments on the Ecuadorian economy are the central theme of this study, in which the effects of this sudden change on the various real and financial variables are considered in detail. It also examines the different policies followed by the authorities with the aim of taking advantage of the country's new wealth to achieve a higher level of development and well-being and deal with the pressures deriving from the more accelerated growth and other external and internal factors.

The study is divided into four chapters.

The first begins by outlining the broad features and problems of the Ecuadorian economy before the production of oil. This is followed by a discussion of the salient characteristics of the petroleum industry, the contribution it represents to the country in terms of foreign exchange and higher government income, the distribution and use of these resources, the policies followed by the Government and the programmes and problems involved in the country's future development. This chapter ends with a summary reference to the principal changes observed in Ecuador after petroleum made its appearance.

Chapter II deals with the main benefits in terms of economic and social development which the country has obtained from its petroleum resources. Thus, its external sector has expanded considerably, not only through its petroleum exports but also through its sales of other exportable items and the inflow of capital.

The State's additional resources have enabled it to make substantial public investments, as well as considerably expanding the services provided by government bodies. A large proportion of petroleum receipts have reverted to the private sector in the form of subsidies for certain types of consumption, lower fiscal taxes and credit from official institutions.

As a result of the production of petroleum, the rate of economic growth accelerated and the gross domestic product recorded unprecedented rates of expansion. Particularly significant was the growth of manufacturing and construction. Agriculture, which had long remained in a backward state, under the stimulus of fiscal, credit and price incentives improved its performance between 1973 and 1976 but declined again in 1977. Income seems to have undergone a certain redistribution; the middle-income and lower-income sectors have improved their relative position at the expense of the upper 10% and a slight drop for the poorest 20% of the population. Moreover, nearly all the indicators of social improvement show progress, although in some cases it has been slow and not very visible, especially because of the degree of poverty existing in the country at the outset of the petroleum era.

In recent years, bank and financial intermediation services have also expanded with the growth of foreign trade, the larger volume of external financing and, above all, the greater development and degree of monetization which the country's economy has attained.

Chapter III refers to pressures and maladjustments caused by the petroleum boom and other factors, which have been reflected in the accentuation of the inflationary process to a point hitherto unknown in Ecuador.

The magnitude of the process, the effects of imported inflation and the pressures deriving from costs are analysed. The changes in total demand and monetary aggregates are also reviewed; and inflation is considered as a reflection of the disparities in the sectoral growth of the economy.

/The authorities'

The authorities' policies to contain and reduce inflation are dealt with in detail, and at the same time the main distortions produced by the inflationary process are indicated, particularly in interest and exchange rates and in certain key prices.

Chapter IV presents a global appraisal of the policies and future prospects. First, the achievements in the period 1973-1977 are compared with the goals of the Economic Change and Development Plan adopted at the end of 1972. In addition, optional policies are analysed vis-a-vis the main problems faced by the Ecuadorian economy. Special reference is made to the type of economic development observed and the role played in it by the public sector; the need to strengthen the external sector; industrial and agricultural development prospects; and the distribution of income. Finally, a summary is given of the main investment projects the Government proposes to carry out in the next few years.

## I. THE IMPACT OF PETROLEUM ON THE ECUADORIAN ECONOMY

### 1. The economy before petroleum

Up to the end of the 1960s Ecuador was one of the least developed countries of South America with a per capita production of 320 dollars, which was only higher than that of Paraguay and Bolivia and equal, according to CEPAL estimates, to a little over 60% of the average for Latin America.<sup>1/</sup> The statistics on income were confirmed by other indicators of development and well-being, by comparing those for Ecuador with those for other Latin American countries.<sup>2/</sup>

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1/ See CEPAL, Economic Survey of Latin America, 1974, p. 138. Also, Germán Salgado, Ecuador y la integración económica de América Latina, IDB-INTAL, Buenos Aires, 1970, p. 28. The present chapter is based on this study, pages 27-72, and also on CEPAL, El desarrollo económico del Ecuador, Mexico, 1954, and Osvaldo Hurtado, El poder político en el Ecuador, Ediciones de la Universidad Católica, Quito, 1977, pp. 55-56, 73-93, 169-175, and 272-291.

2/ See Ecuador y la integración económica de América Latina, op. cit., p. 29.

Not only was per capita production low, but its growth was also sluggish. Between 1960 and 1967 the annual growth rate of the gross domestic product was 1% compared with 1.7% for Latin America as a whole. During that period, moreover, the investment coefficient 3/ was no higher than 14%, or not enough to have given the economy the impulse it needed.

Both the conjunctural fluctuations and the size of the investment were dependent upon the boom or recession in exports. These in fact largely determined the Government's income - and thus its capacity to undertake necessary infrastructure works - and the export sector's economic surpluses which, at least in part, were used to capitalize the production apparatus.

The inadequate capital formation was not only the result of the conditions of the world markets and external demand; it also reflected the influence of structural factors such as the country's geography, demographic composition, supply of resources, social organization, institutions, and distribution of income and resources, all of which determined the population's attitude to work and its spirit of enterprise.

(a) Historical features of the development process

Up to the last few years Ecuador was primarily an agricultural country and even now rural activities continue to be of vital importance. In 1830 over 80% of the population worked in the countryside and at the end of the 1960s the proportion had fallen to 52%. In this last period the sector contributed one-third of the country's production and 95% of its exports. Agriculture also supplied almost all the food and a high percentage of the raw materials for manufacturing the artisan-type industry. Agricultural development in the Sierra was determined by the domestic demand for foodstuffs and sometimes by exports of products such as cascarilla, hides and cereals; in the coastal region, by the external demand for cocoa, but also for tobacco, wood and rubber, and in later years for coffee, rice and sugar cane.

Manufacturing activity was practically non-existent owing to the free exchange policy in force during the nineteenth century, except for a certain artisan-type industry which in the case of Panama hats accounted for a

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3/ Gross domestic investment as a percentage of the gross domestic product..



considerable proportion of exports (23% between 1943 and 1947). The cities were thus basically the centres of consumption, and the limited domestic commerce was nearly always in the hands of foreigners.

Furthermore, the great geographical differences extraordinarily hampered the integration of the country, which began in the last few decades of the past century. In 1908 the Guayaquil-Quito railway was inaugurated and in 1918 the capital was able to communicate with Cuenca. Small industrial initiatives were already observable at that time - the production of food, beverages and ice in Guayaquil and textiles in the Sierra - but even in 1920 the industrial workers represented only 2% of the active population.

The cocoa boom between 1895 and 1920 gave some impetus to Ecuador's development and consolidated the commercial and financial power of Guayaquil, by then the first city of Ecuador. Here the first banks had been established which financed the Government on a significant scale when import taxes failed to cover fiscal expenditure. In exchange for this they were given the privilege of issuing their own bank-notes.

Ecuador was not free during that period from monetary devaluations which, as in other Latin American countries, were the consequence of the recession affecting its external markets. Thus, between 1872 and 1874 the Ecuadorian peso was devalued by about 60%.

The first foreign capital (British and United States) arrived between the end of the last century and the beginning of the present one to finance the railway, gold mines and Santa Elena oil. Between 1910 and 1950 there was practically no external investment or credit.

From 1920 to approximately 1950, Ecuador went through a long period of stagnation owing to the cocoa crisis. This was due both to the appearance of pests and to competition from other producers and the world economic recession. The production of cocoa, at that time the country's main export commodity, dropped from 1 million quintals in 1917 to 300,000 quintals in 1926 and subsequent years.

In 1950, with the inclusion of bananas in Ecuador's exports, another boom period began. The country's capacity to import expanded rapidly and between 1950 and 1954 the average growth of the product was 6.1% annually. Between 1955 and 1959, however, exports of bananas stagnated owing to the

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recovery of Central America's production, and the average annual increase in the product dropped to 3.8%. In the 1960s, banana exports recovered slowly with the opening up of new markets and the adverse effects of cyclones in some years on the production of competing countries. During this period the product grew at an average rate of 4.5% annually.

Manufacturing production, at a very incipient stage up to 1950, subsequently showed more dynamic development, stimulated by the growth of income and domestic demand and by the existence of surpluses for investment in the hands of the export sector and the Government. Between 1950 and 1959 its average growth was 8%, rising to 10% from 1960 to 1969.

Owing to the geographically different areas of the country it has been possible to find new exportable products when a crisis has affected the main foreign trade commodity. Thus, Ecuador's exports have been more diversified than those of other countries of the region, among which there are some where a single product has provided more than two-thirds of the foreign exchange receipts. In Ecuador, even in spite of the huge volume of its oil exports since 1973, their share of the total amounted to 50% in 1977.

(b) Some reasons for the Ecuador's slow growth before 1970

In spite of its small geographical size, the diversity between the various parts of the country (the coastal region, Sierra and east region), and between the various sectors of each, have thus far hampered communication and the integration of the country and favoured localization.

The population consists of 80 to 90% indians and half-castes in the Sierra and a mixture of indian, white and negro, called Montuvio, in the coastal region. Up to some 20 years ago, the illiterate population was calculated at 50%, and even though today it is estimated at 25%, a very high proportion of people, especially in the rural area, have had only one or two years of primary education and for all practical purposes may be regarded as illiterate.

In the past, most of the population (75% at the beginning of the century) was concentrated in the Sierra and surplus manpower lived there under very precarious economic conditions. Migration to the coastal region where development was more dynamic and there was a labour shortage was hindered up

/to the

to the middle of the century by the hard living conditions in the tropics (malaria, yellow fever). When these problems were overcome, however, migration accelerated and at the present time the population of both these regions is almost equally balanced.

In the last few decades the population has grown rapidly (over 3% a year) owing to a sharp drop in the mortality rate and a much smaller decrease in the birth rate. This has been combined with an unsatisfactory distribution of land and labour, low labour productivity and minimal levels of consumption and saving.

The economic surpluses generated in the Sierra - where the latifundistas showed little economic initiative - were largely spent on luxury consumption items which were mainly imported. It was only in the coastal region whose economy was more dynamic that signs of a spirit of enterprise and greater investment of surpluses from the agro-export sector were to be observed.

Agriculture in the Sierra has suffered from the broken nature of the terrain, subjected to crops that have impoverished the soil and caused considerable erosion. The system of land tenure (with large latifundios occupying the best land and many minifundios whose output in many cases is not enough to provide the owners with a means of subsistence), the indian's close attachment to his property, and the labour system (huasipungo) which limits any incentive to introduce technical improvements owing to the low cost of labour, are all factors accounting for the stagnation of the basic sector of the economy. Added to this is the fact that by the middle of the present century the coastal region had still not recovered from the cocoa crisis.

Other additional factors were the lack of use of fertilizers and of pest control, the shortage of improved seeds, the little or no mechanization (although this is difficult in the Sierra and to a certain extent questionable because of the plentiful manpower), the insufficient credit, the non-existent or deficient means of communication and storage, the shortage of irrigation, and floods.

/Salgado says

Salgado says 4/ that the Ecuadorian economy has been characterized by the slow growth and instability of its exports and the lack of investment, both public and private, resulting from the foregoing factors and influenced by the great concentration of wealth and power deriving from the system of land tenure. In this respect, he notes that in 1957 the lower 50% of income recipients obtained 24% of the national income, while the top 2% received 19%.

He adds, however, that Ecuador's greater economic development in the 20 years before the start of the petroleum era introduced some changes in those systems and in his own words "the decay of the system of Sierra farms and classic coastal plantations (cocoa cultivation and rice sharecropping) is gradually undermining the economic base of the old power structure. The more modern and active groups engaged in foreign trade and related services, especially finance, are increasingly acquiring the control capacity of a dominating group. The middle class has increased, but as is typical in Latin America, it lacks a conscience as such and adopts the values of the high-income strata. To sum up, there is a germ of change in society, but the concentration of wealth and power continues to be extreme and, even more serious, there still exist production structures which combine uneven results with an ineffectiveness which makes them completely incompatible with development".5/

## 2. Emergence and characteristics of the petroleum industry

During the past five years Ecuador has experienced a process of fairly rapid growth owing to the emergence of the petroleum industry. The considerable additional resources - increased by the high fuel prices in 1973 - accrued mainly to the State and at the same time enormously strengthened the country's capacity to import. They also led to an increase in demand, which contributed to a greater or lesser breakdown of the traditional pattern of growth of nearly all sectors of the economy.

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4/ See Ecuador y la integración económica de América Latina, op. cit., pp. 45 et seq.

5/ Ibid.

The petroleum resources have been divided among many State bodies and their domestic use brought about a powerful expansion of public expenditure, particularly investment.

From the point of view of the external use of foreign exchange, although it is difficult to assign a kind of expenditure to a specific income, it may be affirmed that of the total value of oil production between 1972 and 1977, about one-third has been absorbed by domestic consumption; 49% for increased imports of capital goods over their 1971 value; 16% for strengthening Ecuador's international reserves; and the balance of 2% to cover other imports. Moreover, it is interesting to note that the maintenance of frozen domestic prices for petroleum products has meant a consumption subsidy which in 1976 and 1977 may be estimated at around 200 million dollars a year (see tables 7 and 8).

Nevertheless, since 1974 the relative importance of petroleum in terms of its contribution to the gross domestic product, the value of exports and fiscal income recorded a clearly declining trend.

(a) Background

Petroleum has been produced in Ecuador for many years and was one of the first economic activities to attract foreign capital. However, the petroleum era proper began in 1968 with the discovery of commercially exploitable oil reservoirs in the eastern part of the country. Production and export actually started in August 1972 and were carried out by a consortium which consisted of the United States Texaco Petroleum Company and Ecuadorian Gulf Oil Company, and which subsequently included the Ecuadorian State Petroleum Corporation (CEPE).

Although at the outset exploratory and development concessions were granted to a great many foreign companies, nearly all of them have since reverted to the Government and the only commercial production so far has been that undertaken by the aforementioned consortium. At present there are a few areas which have been assigned to various enterprises, mainly in the eastern region, CEPE, the CEPE-Texaco Consortium, the Argentine State Petroleum Corporation, and another United States enterprise by the name of City Investing Company.

/In the

In the coastal region there are also some areas which have been conceded to CEPE and the United States North West Company for exploration and development. The total area directly assigned to CEPE is 1,350,000 hectares out of the total concessions amounting to 2,800,000 hectares; the CEPE-Texaco consortium has also been assigned 490,000 hectares.

Proven oil reserves are so far estimated at 1,400 million recoverable barrels; probable reserves are believed to be over 5,000 million barrels.<sup>6/</sup>

Petroleum exports required the construction of a 500-kilometre oil pipeline across the mountain ranges of the Andes, to carry petroleum from the eastern region to the port of Esmeraldas on the north coast. The oil pipeline has five pumping and four reducing stations and a normal carrying capacity of 250,000 barrels of petroleum a day, which by means of additional investment could be increased to 400,000 barrels a day.

The total investment for exploration, extraction and export of the petroleum between 1970 and 1974 may be estimated at about 300 to 350 million dollars.

(b) Production and destination

Ecuador's production which in 1973 amounted to nearly 12 million metric tons annually, declined in 1974 and 1975, recovering again in 1976 to almost 11 million, and falling once again to 10.5 million tons in 1977. Although Ecuador is the second crude petroleum exporting country in Latin America, its production is below that of several countries in the region. Thus it is less than 10% of Venezuela's output, nearly one-quarter of Mexico's, half the production of Argentina, and is similar to that of Trinidad and Tobago.

The volume of petroleum production originally planned in 1972 was never attained. On the other hand, the foreign exchange receipts have been higher owing to the rise in the price of crude in 1973. Table 1 shows the quantity of petroleum produced, the total domestic consumption and the exportable balance.

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<sup>6/</sup> 1 metric ton of petroleum is equal to 6.29 barrels.

Table 1  
ECUADOR: PRODUCTION AND USE OF PETROLEUM  
(Thousands of barrels) a/

	1972	1973	1974	1975	1976	1977 <sup>b/</sup>
<u>Production</u>	<u>28 579</u>	<u>76 221</u>	<u>64 616</u>	<u>58 753</u>	<u>68 372</u>	<u>66 142</u>
Domestic consumption	2 227	17 648	18 948	16 124	20 957	22 716
Exports <sup>c/</sup>	24 962	59 033	44 389	43 064	47 349	40 158
Changes in stocks	1 390	-460	1 279	-615	66	3 268

Source: Central Bank of Ecuador, Sub-Management of Hydrocarbons.

a/ 1 ton = 6.29 barrels.

b/ Preliminary figures.

c/ Excluding exports under compensation and barter agreements for refining or consumption in Ecuador.

/Of the

Of the petroleum exported in 1976, 30% went to the United States, 20% to Panama and the same percentage to Peru. Chile imported 8% and Colombia 4%. The rest was sold to Curaçao, the Netherlands West Indies and Puerto Rico.

Sales to the United States have tended to decline with the arrival of oil from Alaska which supplies the Pacific region of the United States. Furthermore, petroleum from other sources (Indonesia) is more suitable for mixtures that meet United States environmental protection requirements. Consequently, Ecuador has been opening up new markets in the eastern part of South America (Brazil, Uruguay and also Argentina) in order to compensate for this loss as well as the reduced purchases by Peru.

Although domestic consumption of petroleum in Ecuador (2.4 barrels per inhabitant) is lower than the average for Latin America (2.8 barrels per inhabitant), since oil production started it has been growing at rates almost twice as fast as the rates for the region. In 1976 about 30% of the petroleum produced was consumed in the country and in 1977 the coefficient rose to 34%.

It is estimated that a large proportion of the increase in consumption has been due to the policy of keeping the prices of petroleum products stable at the level in force prior to the rise in world market prices in 1973. At present a gallon 7/ of 80-octane gasoline is sold to the Ecuadorian consumer at 20 US cents.

Domestic needs have been met by the refineries on the Santa Elena peninsula near Guayaquil, one of which belong to Gulf Oil and the other to the Anglo-Ecuadorian Company, their combined refining capacity being 45,000 barrels a day. In the eastern region there is also a small refining plant with a capacity of 1,000 barrels a day which serves only to meet local needs. Since the Santa Elena refineries can only use a part of the Ecuadorian crude, a proportion of the refined petroleum was obtained up to a short time ago through a system of barter of Ecuadorian oil for imported petroleum, on a terms-of-trade basis of 1.35 barrels of local oil for one barrel of imported petroleum.

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7/ 1 gallon is equal to 3,785 litres. The sales price to the consumer is even lower than that charged in the United States before 1973.



At the end of 1976 the refinery built by the Ecuadorian State Petroleum Corporation at Esmeraldas, with an initial refining capacity equivalent to 55,600 barrels a day was completed. Owing to the lack of synchronization between the construction of port and transport facilities and the completion of the refinery, in the first year it operated at a fraction of its capacity. These problems were solved at the beginning of 1978 and the country now has a refining capacity of a little over 100,000 barrels a day, which will enable it to meet all the domestic consumption requirements and even leave a surplus for export.

Of all the products refined with the above-mentioned capacity, approximately 39% was gasoline, 17% diesel oil, 17% fuel oil, 13% kerosene, and the rest turbo fuel, jet fuel, asphalt, liquefied gas and residues.

(c) Taxation and distribution of petroleum income

The tax on the petroleum industry is fairly complex, both because of the number of existing taxes and the changes constantly introduced in the system, and because of the fact that the income is specifically earmarked for financing certain public sector bodies.

In 1976, according to estimates of the International Monetary Fund in an internal report, the public sector's total share was 10.48 dollars per barrel of oil exported. The actual sales price that year was about 11.60 dollars. At the end of 1977 the actual price in force for external sales was estimated at 12.97 dollars per barrel and the State's share at 11.29 dollars, according to the agreements concluded with Texaco which guarantee that company a gross profit of about 1 dollar per barrel of exported crude.

In November 1975 the tax system was simplified and two important taxes were established which affected both Texaco and Gulf Oil. One was a royalty of 17% and the other a 71.42% tax on income.

The royalty was calculated on the basis of 85% of the reference prices, which are 13.90 dollars per barrel of exported petroleum and 1.48 dollars for petroleum consumed in the country. This royalty is distributed as follows: 50% for the Armed Forces, 47% for the Ecuadorian Electrification Institute (INECEL) and 3% for the Esmeralda province.

/The tax

The tax on income is based on the total receipts obtained from both external and internal sales after deducting production and transport costs,<sup>8/</sup> the aforementioned royalty and a few other minor taxes which still exist, such as dispatch and service taxes, or port dues. The proceeds of the tax on income are distributed as follows: 0.20 sucres per barrel for CEPE, about 48% for the National Development Fund (FONADE) and 36.5% for the fiscal budget. The balance is allocated in relatively equal proportions to the Ministry of Labour, Ecuadorian Housing Bank, National Participations Fund (FONAPAR), State universities and several lesser beneficiaries such as the Ministry of Agriculture, Social Security and Health System, Municipality of Esmeraldas, Educational Credit Institute and Central Bank.

Of the public sector's total oil receipts in 1976, 63% was assigned to the central government budget, FONADE and FONAPAR. The Armed Forces received 11%; the Ecuadorian Electrification Institute, 10.4%; the Ecuadorian State Petroleum Corporation, 6.1%; and the rest of the recipients, 9.5% (see table 2).

In 1977 the distribution was altered following an agreement between the Government and Texaco which was concluded in December but was effective for the whole year. According to the new distribution, there was a reduction in the percentages assigned to nearly all those receiving a share, including the fiscal budget and FONADE, and a substantial increase in the share of the Ecuadorian Electrification Fund. In addition, a total of 2.9% was assigned to the National Defence Board and the Ecuadorian Air Force.

At the same time, the royalty was fixed at 18.5% and the tax on income at 87.31%, and the tax base (prices and costs) was altered to achieve the gross profit indicated above.

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<sup>8/</sup> For tax purposes, it is currently estimated that the cost of production is 60 US cents per barrel and the cost of transport by oil pipeline is 22 US cents.

Table 2

ECUADOR: DISTRIBUTION OF STATE PETROLEUM INCOME, 1976

	Millions of dollars	Percent age
Central government budget	126.7	27.8
National Development Fund (FONADE)	152.0	33.3
National Participations Fund (FONAPAR) <u>a/</u>	10.4	2.3
Ecuadorian State Petroleum Corporation (CEPE)	27.8	6.1
Ecuadorian Electrification Institute (INECEL)	47.2	10.4
Armed Forces	50.2	11.0
State universities	7.9	1.7
Ecuadorian Housing Bank	11.5	2.5
Esmeraldas province	3.0	0.7
Ministry of Health	5.8	1.3
Ministry of Labour and Social Welfare	11.5	2.5
Other <u>b/</u>	1.9	0.4
<u>Total</u>	<u>455.9</u>	<u>100.0</u>

Source: World Bank, Current Economic Positions and Prospects of Ecuador, 1976.

a/ For decentralized institutions and municipalities.

b/ Private universities, Central Bank, Esmeraldas Development Account.

The National Development Fund established in 1974 receives an income consisting of the excess price per barrel over 7.30 dollars for 28° API.<sup>9/</sup> The purpose of the Fund was to finance the imported component of investment projects aimed at developing economic activity in the petroleum sector and eventually replacing the income obtained from petroleum. One of the Fund's chief investments has been in the petroleum refinery of Esmeraldas. At the same time, however, as may be seen in table 3, very different types of investment have been made and the resources have largely served to finance the normal investment proposed for the public sector. In this respect, it may be affirmed that the major part of the investment, although considerable from the point of view of strengthening the country's economic infrastructure, will help only in a relatively minor degree to replace the foreign exchange receipts obtained from petroleum exports today.

One criticism levelled at the action taken by FONADE is that in view of the fact that it is administered by members of the Economic Front <sup>10/</sup> and that it has not been set up as an autonomous public institution proper, it has largely served as a new channel for the Government's investment expenditure.

(d) Effects and use of petroleum resources

It is difficult to form an exact overall picture of the result of the petroleum operations because no official information has been published on the subject. On the basis of data from various sources, however, the following summary may be given for 1976. The total value of exports, excluding those effected under the system of compensation and barter to supply Ecuador with petroleum products, amounted to 565 million dollars that year. Production and transport costs totalled 56 million and amortization of investment 31 million. The participation of the Government and all public sector bodies, including those financing the total expenditure (both current and capital) of the Ecuadorian State Petroleum Corporation amounted to 449 million dollars. Lastly, the profit of enterprises may be estimated at 29 million, which represents about 13% of total net investment, according to the book value, at the end of 1976.

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<sup>9/</sup> This indicator measures the quality of the oil, according to standards established by American Petroleum International.

<sup>10/</sup> A Committee composed of ministers and high-level government officials concerned with economic affairs.

Table 3

ECUADOR: DISBURSEMENTS OF THE NATIONAL DEVELOPMENT FUND (FONADE)

(Millions of dollars)

	1974	1975	1976	1977 (January- October)	Total 1974-1976 and 1977 (January- October)
Transfer to the central government	9.5	70.2	65.8	136.0	281.5
Ministry of Education	3.6	4.5	13.8	16.8	38.7
Ministry of Public Works	3.0	13.7	12.0	20.2	48.9
Ministry of Industry	2.9	-	-	2.9	5.8
Budget (contribution)	-	28.0	40.0	-	68.0
Loans to the budget and decentralized and provincial institutions	-	24.0	-	96.1	120.1
State oil refinery	21.4	57.7	37.5	9.9	126.5
National Development Bank	20.1	-	-	-	20.1
National Securities Commission	10.0	0.1	-	-	10.1
Universities	-	8.4	14.0	-	22.4
Financial Funds	8.0	-	-	-	8.0
FONAPRE	-	2.0	3.4	-	5.4
Crop farming and stock-raising	-	5.2a/	0.8a/	7.3	13.3
Other b/	23.5	14.1	40.1	16.4	94.1
<u>Total</u>	<u>92.5</u>	<u>157.1</u>	<u>161.6</u>	<u>169.6</u>	<u>581.4</u>

Source: Budget Office.

a/ Imports of wheat and heifers.

b/ Contributions to cultural development, irrigation, electricity, port works, agricultural mechanization, health, etc.

/Table 4

Table 4 shows the production and domestic consumption values for the first six years of exploitation. Both these figures have been based on export prices and represent 3,270 million and 1,070 million dollars, respectively.

Since petroleum is destined mainly for the external market, exports increased by 80% in 1973 and 110% in 1974, and as the profits from the industry accrue basically to the Government, total fiscal income rose in those same years by 43 and 71%, respectively. The State therefore had a huge volume of resources which enabled it to increase its current and investment expenditure and transfer funds to the private sector (by means of the growth of official credit, semi-public enterprises, tax incentives to investment and to imports of certain goods, and subsidies for consumption, particularly of petroleum products), which accelerated the development process, especially because at the same time the country's capacity to import was increasing substantially. Thus, from an average growth rate of 5% in the years 1969-1971 it rose to 11.3% in the period 1972-1976.

Although petroleum has been the key factor in the changes occurring in the Ecuadorian economy in the last few years, its share has been declining since 1974. While in that year the petroleum sector generated 16% of the gross domestic product, the proportion gradually declined to less than 11% in 1977. Petroleum income, in its turn, represented nearly 38% of central government income in 1974 and the coefficient dropped to less than 25% in 1977. Similarly, while in 1974 petroleum accounted for 65% of the country's total exports, its share dropped to 56% in 1976 and to about 50% in 1977 (see table 5).

It is a well-known fact that it is not entirely correct to separate specific items of income and ascribe them to certain expenditure. Since petroleum receipts were responsible for the enormous expansion of the external sector, however, it was considered by way of an exercise that petroleum foreign exchange earnings had financed the increase in purchases of imported capital goods over the 1971 level.<sup>11/</sup> This is shown in table 6 which presents the figures on a year-by-year basis. The total difference between 1972 and 1977 was 1,622 million dollars, or 49% of the total value of petroleum production during the period (see table 7).

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<sup>11/</sup> In that year they amounted to 109 million dollars out of a total of 304 million dollars' worth of imports.

Table 4

ECUADOR: VALUE OF PRODUCTION AND DOMESTIC CONSUMPTION OF  
CRUDE PETROLEUM, AT EXPORT PRICES

(Millions of dollars)

Year	Production value	Value of domestic consumption
1972	68.6	5.3a/
1973	308.7	71.5
1974b/	889.8	260.9
1975	688.6	189.0
1976	815.7	250.0
1977c/	857.9	294.6
<u>Total</u>	<u>3 269.3</u>	<u>1 071.3</u>

Source: Central Bank, Ministry of Finance, and International Monetary Fund,  
Ecuador: Recent economic developments, 1977.

a/ Difference between production and exports in 1972.

b/ The values shown for this year are higher than the actual values owing to the existence of a nominal official price - that is to say, at which exporters must sell their foreign exchange to the Central Bank - higher than the actual export price.

c/ Preliminary figures.

Table 5  
ECUADOR: RELATIONSHIP BETWEEN PETROLEUM PRODUCTION, THE GROSS DOMESTIC  
PRODUCT, EXPORTS AND GOVERNMENT INCOME

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<u>Millions of sucres</u>						
1. Gross domestic product at market prices	47 102	63 575	95 585	108 246	130 183	153 812
2. Petroleum sector	1 092	5 496	15 197	12 976	16 489	16 366
3. (2) as a percentage of (1)	2.3	8.6	16.2	12.0	12.7	10.6
<u>Millions of dollars</u>						
1. Total exports	323	583	1 225	1 013	1 296	1 396
2. Petroleum exports <sup>b/</sup>	59	282	792	617	726	713
3. (2) as a percentage of (1)	18.4	48.4	64.6	60.9	56.0	51.1
<u>Millions of sucres</u>						
1. Government income <sup>c/</sup>	7 028	10 039	17 141	19 318	23 053	26 700
2. Government petroleum income	877	2 499	6 490	5 840	6 610	6 511
3. (2) as a percentage of (1)	12.5	24.9	37.9	30.2	28.7	24.4

Source: Central Bank, Ministry of Finance, and International Monetary Fund, Ecuador: Recent economic developments, 1977.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Including exports under compensation and barter agreements for the following values: 1973, US\$ 43 million; 1974, US\$ 186 million; 1975, US\$ 112 million; and 1976, US\$ 165 million.

<sup>c/</sup> Budget, plus National Development Fund and National Participations Fund (FONAPAR).



Table 6

ECUADOR: INCREASES IN IMPORTS OF CAPITAL GOODS OVER THE 1971 LEVEL

(Millions of dollars)

1972	1973 <sup>a</sup>	1974	1975	1976	1977 <sup>a/</sup>	Total
8	78	280	340	330	586	1 622

Source: Central Bank of Ecuador, Department of Economic Indicators.

a/ Preliminary figures.

Table 7

ECUADOR: USE OF INCREASE IN VALUE OF PETROLEUM PRODUCTION, 1972-1977

	Millions of dollars	Percentage distribution
Domestic consumption (at international prices)	1 071	33
Increase in imports of capital goods	1 622	49
Increase in foreign exchange reserves	515	16
Expenditure on other imports	61	2
<u>Total</u>	<u>3 269</u>	<u>100</u>

Source: Central Bank of Ecuador, Management of Monetary Studies.

/The domestic

The domestic consumption of petroleum products, at international prices, amounted to practically one-third of the total value of Ecuador's production; 16% of it, i.e., 515 million dollars, has helped to bolster the Central Bank's foreign exchange reserves, and 2% to pay for other imports.

Furthermore, the subsidy implicit in the maintenance of fixed prices for petroleum products consumed locally is estimated in table 8. In five years it totalled about 830 million dollars, or 25% of the production value.

From a different standpoint it might be asked how much of the growth of the Ecuadorian economy was due to petroleum production. For this purpose it may be assumed that the gross domestic product, excluding the petroleum sector and its impetus, grew at an annual rate of 5% (slightly higher than the historical rate). The series of products thus obtained is compared with the actual series, and the difference between them ascribed to the effect of the petroleum industry (see table 9).

For the whole period 1973-1977 the sum of the differences between real and theoretical production was 5,600 million dollars, or an average of 1,120 million per year. Comparing this with an approximate value of 3,270 million dollars for petroleum and 2,200 million for petroleum exports, a multiplier effect of 1.7 is obtained in the first case and 2.5 in the second.

### 3. Petroleum policy

Petroleum policies are determined by the Government through the Ministry of Natural Resources and Energy and the Hydrocarbons Department, while petroleum operations are in the hands of the Ecuadorian State Petroleum Corporation (CEPE). The basic features of these policies may be found in the Integrated Change and Development Plan prepared by the Planning Board in 1972. Though never fully implemented, some of these policies have guided the Government's action in the last few years.

Table 8

**ECUADOR: ESTIMATED SUBSIDY IMPLICIT IN DOMESTIC CONSUMPTION  
OF PETROLEUM PRODUCTS <sup>a/</sup>  
(Millions of dollars)**

1973	1974b/	1975	1976	1977c/	Total
29	215	189	250	199	823

Source: Central Bank and Ministry of Finance.

a/ Estimate on the basis of the difference between the value of domestic consumption and its equivalent at international prices.

b/ This figure must be overestimated for the reasons given above in connexion with differences between actual prices and nominal official prices.

c/ Preliminary figures.

Table 9

**ECUADOR: ESTIMATED GROWTH OF THE GROSS DOMESTIC PRODUCT  
ATTRIBUTABLE TO PETROLEUM PRODUCTION  
(Millions of dollars at 1970 prices)**

Year	Real GDP (A)	Theoretical GDP, excluding petroleum (Annual growth rate of 5%) (B)	Difference (A) - (B)
1972	1 700	1 700	
1973	2 235	1 785	450
1974	2 891	1 874	1 017
1975	3 069	1 968	1 101
1976	3 283	2 066	1 217
1977a/	3 989	2 170	1 818

Source: CEPAL estimates on the basis of official data.

a/ Preliminary figures.

/The main

The main types of policies that were put into effect are reviewed below: (a) conservation of natural resources; (b) defence of markets and international prices; (c) increased national and State participation in the oil industry; (d) further processing of exported products; (e) use of the income to replace a non-renewable resource.

(a) Conservation of natural resources

The basic objective of this policy has been to maintain a fairly reasonable and stable relationship between proven reserves and production. When the Change and Development Plan was prepared in 1972 a production of 400,000 barrels a day was proposed for 1976. In 1974, however, the Government established a ceiling output of 210,000 barrels a day, assigning a quota to each of the five oil-fields operating in the eastern region: 100,000 barrels for the most important oil-field at Sushufindi, 55,000 and 30,000 for those at Sacha and Lake Agrio, respectively, and the rest divided between the Aguarico and Auca oil-fields. This ceiling may be exceeded or reduced by 5% in certain unforeseen circumstances. The truth is that after 1974 the ceiling was never reached, at times because of the companies' own decisions, at other times because of problems of marketing at the established prices, and at others because of defects in the oil pipeline which have sometimes stopped work for more than 30 days in the year.

The maintenance of the relationship between reserves and annual production legally in force, though not attained in any of the years 1975 to 1977, would ensure an estimated duration of 17 years for actually proven reserves.

(b) Defence of markets and international prices

This aspect of petroleum policy is reflected in Ecuador's participation in the Organization of Petroleum Exporting Countries (OPEC). This has involved defending the price of petroleum in the international markets with the object of ensuring a maximum stable income for producers. Generally speaking, Ecuador has aligned itself with those countries which have supported relatively moderate increases.

/(c) Increased

(c) Increased national and State participation in the oil industry

Various developments contributed to this trend. When new contracts with the United States companies Texaco and Gulf Oil were concluded in 1973, the State obtained an option, through CEPE, to purchase up to 25% of their rights and assets in the Petroleum Consortium. This took place shortly afterwards at a purchase price of 43 million dollars.<sup>12/</sup> Thus in 1974, 25% of the petroleum industry became the property of the State and 37.5% remained in the hands of the two foreign companies.

The national participation policy has been evident too in the disputes that have arisen between the Government and the United States companies. These have been basically due to the establishment by the Government of reference prices which in 1974 and part of 1975 were higher than the prices actually obtainable on the world market. Since at the same time, in the companies opinion, the estimated cost of production was excessively low, taxation was calculated on the basis of profit margins which, according to the companies, were fictitious and in practice, therefore, this was tantamount to a rise in the rate of taxation. In an attempt to change these conditions, the companies started to reduce the volume of production, adducing that sales at reference prices were not feasible, which resulted in the failure to attain the decreed production level of 210,000 barrels a day.

The dispute between the oil companies and the Government was partially settled in 1974, on the basis of amended reference prices and production costs. These changes were not wholly satisfactory to the oil companies, however, and the disputes were accentuated in 1975. Gulf Oil initiated legal proceedings in the United States in connexion with the ownership of the petroleum being sold to that country, and at the same time retained beyond the legal deadline the proceeds of petroleum exports which should have been made in the Banco Central and this in accordance with the Consortium agreements entitled the Government to rescind them without payment of indemnity.

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<sup>12/</sup> An additional amount of around 3 million dollars is still under discussion owing to differences in the assessment of the Consortium's assets and may ultimately have to be paid by CEPE.

In these circumstances, in the second half of 1976 Gulf Oil announced its desire to withdraw from Ecuador and to sell its share in the Consortium to CEPE. After a period of negotiations the sales price of Gulf Oil's percentage was fixed at 82 million dollars, which were paid by Ecuador in cash. There remained an additional sum of about 35.4 million dollars claimed by the company, which will have to be investigated by a group of expert auditors, since the purchase of Gulf Oil's interests had been agreed on the basis of the Consortium's book value. The State has extended a guarantee of payment for the difference under discussion. At either extreme, the payment agreement entered into by CEPE establishes the book value of the petroleum industry at the end of 1976 at somewhere between 220 and 313 million dollars, the relevant amortization payments up to that date being deducted from the total sum invested. As a result of these negotiations, at the present time 62.5% of Ecuador's petroleum is owned by the State and 37.5% by the United States Texaco Petroleum Company.

The national participation policy also led to the construction with State funds of the oil refinery in the city of Esmeraldas. This refinery was constructed without recourse to external credit and entailed an investment of about 120 million dollars. Ecuador has also strengthened and increased the State merchant fleet for the transport and marketing of petroleum both inside and outside the country.

A considerable part of the effort to achieve efficient control of the management and development of the hydrocarbons industry has been directed towards the training of technical personnel of all types in both national and foreign universities in order to bring to an end to Ecuador's dependence on other countries in this respect. This aim seems to have been largely realized; in 1973, out of a total of 534 technical and administrative personnel working in the hydrocarbons field, 89 were foreigners. Their number was reduced to 88 in 1976 but was equal to only 4.7% of the total of 1,859 technical and administrative personnel working in the industry.

The nationalist policy is evident too in the extent of the area conceded for oil exploration and development activities. While in the first few years a considerable number of companies received concessions for exploratory and development purposes, by the middle of 1977 such concessions

/had been

had been reduced to 938,000 hectares. The foreign enterprises holding concessions were the United States North West Company and the State Petroleum Corporation of Argentina, each with 200,000 hectares; the City Investing Company, with 48,000 hectares; and the CEPE-Texaco Consortium, with 490,000 hectares. This compares with the CEPE concessions totalling 1,800,000 hectares, of which 500,000 are on the coast and the rest in the eastern region.

The process of nationalization and State ownership has led to an extraordinary expansion of CEPE, which at present has multiple activities. It participates in the exploration activities and owns 62.5% of the Consortium which produces and exports petroleum; it participates in the transport and marketing of petroleum in other countries and is responsible for the refining, transport, domestic supply and marketing of most of the petroleum products used in the country. It is undoubtedly the largest economic unit in Ecuador. The magnitude and range of activities which CEPE has had to undertake in a short while have created some problems which have affected its organization and efficiency and have come under public discussion.

For example, quite frequently difficulties have arisen in the supply of gasoline or gas to several cities in Ecuador. There was also a lack of synchronization between the construction of the oil refinery and the port and transport terminals necessary to operate it efficiently. In addition, there have been numerous changes in management over a short period. All this has raised the need for a reorganization of the Corporation, its decentralization or division, which has so far not been specifically determined by the Government.

Of the various alternatives considered with respect to the future of CEPE and its organization, that which will possibly prevail is the maintenance of the Corporation as a unit, but operating through different autonomous departments with sufficient flexibility to adopt a commercially and technically efficient approach to its operations.

/(d) Further

(d) Further processing of exported products

Another aspect of Ecuador's petroleum policy refers to achieving a further degree of processing of crude oil and being able to export refined products or products of the petrochemical industry, in accordance with the assignments made to Ecuador under the Cartagena Agreement. The present capacity of the refinery established in Esmeraldas is 50,000 barrels a day, which can be expanded with relative ease to 70,000. This would permit the export of petroleum products instead of crude oil.

An investment of about 1,500 million dollars is planned in a petrochemical programme that will use not only petroleum but also natural gas which is estimated to exist in abundance in the Gulf of Guayaquil. This industry will provide employment for approximately 20,000 persons, 5,000 of whom will be highly skilled manpower. If this project which requires a production of crude of around 400,000 barrels a day is carried out, it is estimated that total value of production in 1980 will be about 460 million dollars, of which a relatively high percentage will be destined for export both to the Andean Group and to third countries. According to available estimates, the basic production of this programme will comprise 300,000 tons of ethylene, 70,000 tons of propylene, 50,000 tons of butadiene, 140,000 tons of benzene, 20,000 tons of xylene and 15,000 tons of toluene.

(e) Replacement of petroleum as a non-renewable resource

Another feature of Ecuador's petroleum policy is connected with the use of the income obtained from petroleum, which as noted earlier, virtually all accrues to the central government or to decentralized public sector bodies. In this connexion it was suggested, especially in the early years of petroleum development, that it was necessary to "sow petroleum". This of course was because, as a non-renewable resource, the foreign currency earnings might eventually disappear together with the depletion of the reservoirs. This was the object of establishing the National Development Fund in 1974.



4. Some aspects and problems associated with the petroleum industry's development possibilities

From a review of the development of the external sector it seems clear that the considerable expansion of exports after 1972 was rapidly followed by an increase in imports and the adaptation of the country's economy to its new income, so that any significant reduction in the volume of external purchases at the present time could have serious effects on future development and could even affect the present level of economic activity. It is also true, however, that petroleum exports have lost their dynamism and represent a declining percentage of exports. This is due to the stagnation of production and the rapid increase in domestic consumption.

Other export products have come to bolster foreign exchange receipts, but in some cases this has been due to price increases which should perhaps be regarded as temporary (coffee, cocoa), and in others (fisheries) the total volume of sales is still insignificant. Even so, since 1976 there has been a growing deficit on the current account of the balance of payments which has been covered through increasing recourse to external borrowing. This presents no serious problems in the short term, but in a somewhat longer perspective there is an evident need to strengthen the external sector of the economy which does not seem possible unless petroleum is developed on a greater scale. This need is even more urgent if the Government wishes to carry out development programmes for the petrochemical industry.

The stagnation of petroleum production is due to the lack of investment in the industry. While investment in the private sector has been reduced practically to a minimum since 1974, public sector investment has been mainly concentrated in the construction of the Esmeraldas refinery and auxiliary transport facilities.

This has meant, on the one hand, the impossibility of achieving the rates of production established as ceilings, and also a fairly marked decrease in exploratory operations. Thus, for example, during the three years 1972-1974, 141 wells were drilled, of which 118 proved commercially successful. In 1975 and 1976, drilling fell to 28 wells, of which 23 proved commercially successful; and in 1977 only 5 wells were drilled.

For 1978 the Ministry of Natural Resources has announced several programmes for incorporating new oil-fields and increasing the present production by 35,000 barrels a day, which is calculated to raise output to a level of nearly 250,000 barrels a day. This would be achieved through a programme of investment of 36 million dollars (of which Texaco should contribute 13.5 million and CEPE 22.5 million) to develop new structures, plot more than 1,000 kilometres of isoseismal lines and drill 17 exploratory and development wells. These activities could bring proven reserves to over 100 million barrels and with reconditioning work in the oil-fields an additional output of 25,000 barrels a day may feasibly be achieved. The additional 10,000 barrels obtained from the CEPE-CEPCO oil-fields will bring production up to the aforementioned total of 35,000 barrels a day.<sup>13/</sup> In the opinion of technical experts, most probably only part of this increment will be attained in 1978 and the balance in 1979.

The raising of production to 250,000 barrels a day will mean a drop in the ratio between reserves and production. Since this is a relatively moderate change, however, it is not a conclusive sign that any clear criterion has prevailed in the Government as regards expanding exploitation and income even at the expense of more rapidly depleting the proven reserves. On the other hand, raising the production level to some 350,000 barrels a day would require a proportionally more costly investment programme and a significant redefinition of the natural resources conservation policy.

Since the end of 1977 problems have arisen in marketing Ecuadorian crude. Reference has already been made to those connected with the United States and to CEPE's efforts to find alternative markets. Furthermore, at the beginning of 1978 there was a world surplus of petroleum of 2 to 3 million barrels a day, owing to Alaska's production and also the increase in the supply of oil from the North Sea and in the exportable production of the Soviet Union, China, Saudi Arabia, Mexico and Peru. Many producers have reduced their prices and extended the periods of payment for fuel.

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<sup>13/</sup> This represents an annual income of approximately 130 million dollars (about 10% of present exports). In order to calculate annual output, the daily volume is multiplied by 330, which is the average annual number of days in which the oil pipeline has actually been in operation.

/In addition,

In addition, the existence of excess transport capacity in the form of supertankers has led to a drop in freight rates which has placed Ecuadorian crude at a disadvantage compared with that of the Middle East and has obliged CEPE to reduce its prices.

On the other hand, the international agencies have declared that there are excellent possibilities of exploiting gas in the Gulf of Guayaquil. To that end, in 1975 the Government granted a concession to the United States North West Company, which after three years stated that the project could not be carried out along the agreed lines. This has given rise to disputes between the Company and the Ecuadorian authorities, which have not yet been settled and will no doubt delay the development of this resource for several years. It was planned to use natural gas for the development of both the petrochemical and the steel industries.

#### 5. Principal effects of petroleum on economic development

Petroleum determined a radical change in the economic development of Ecuador. This is reflected in nearly all the significant variables for which information is available, as can be seen in table 10 which compares some of their values for the years 1972 and 1976.

The economic growth triggered by petroleum exports is visible both in the greater economic activity in producing goods and services and in the expansion of trade and the changes in the consumption habits of an expanding middle class. The boom is especially noticeable in the major urban centres - Quito and Guayaquil - but is also observable in other cities such as Cuenca, Ambato and Santo Domingo de los Colorados.

##### (a) Expansion of the external sector, Government activity and the financial sector

Since the changes have been due to the rapid growth of the external sector, it is precisely here that several of the most transcendental modifications are to be found. Thus, exports of goods and services in constant foreign currency grew by 186% in four years, and imports increased 136% over the same period. International monetary reserves, in their turn, rose from 143 million dollars in 1972 to 515 million in 1976. In terms of currency of equal purchasing power, the increase was 168%.

Table 10

ECUADOR: EVOLUTION OF VARIOUS SIGNIFICANT INDICATORS IN THE EARLY YEARS OF THE PETROLEUM ERA

	1972	1976	Percentage variation
<b>Demographic variables</b>			
Population (millions)	6.4	7.3	14
Economically active population (millions)	2.1	2.4	14
Life expectancy at birth (years)	59.1	62.2	5
Birth rate per 1 000 inhabitants	41.8	39.7	-5
Mortality rate per 1 000 inhabitants	11.0	9.8	-11
Literacy (percentage)	70.1	75.0	7
School attendance coefficient <u>a/</u> (percentages)	101.5	110.3	9
<b>Production variables</b>			
Index of gross domestic product in sucres at 1970 prices	100	158	58
Index of per capita gross domestic product in sucres at 1970 prices	100	138	38
Gross domestic product in millions of dollars <u>b/</u>	1 884	5 207	176 <u>b/</u>
Gross domestic product in millions of dollars at 1970 prices <u>c/</u>	1 722	3 556	107
Per capita gross domestic product in dollars <u>b/</u>	295	711	141 <u>b/</u>
Per capita gross domestic product in dollars at 1970 prices <u>c/</u>	270	486	80
Agricultural production (millions of sucres at 1970 prices)	10 058	13 112	30
Manufacturing production (index: 1970 = 100)	100	155	55
<b>Some components of manufacturing production (indexes: 1970 = 100)</b>			
Food	100	141	41
Manufacture of textiles	100	114	14
Footwear and made-up textile goods	100	123	23
Wood and furniture	100	162	62
Chemical substances and products	100	152	52
Paper	100	107	7
Plastics	100	225	125
Non-metallic mineral products	100	164	64
Intermediate metallurgy	100	163	63
Electrical machinery and appliances	100	311	211
Machinery, except electrical, and vehicles	100	353	253
<b>Some physical indicators</b>			
Electric energy generated (millions of KWH)	1 140	1 816	59
Cement consumption (Thousands of tons)	558	915	64
Total road network (kilometres)	22 692 <u>d/</u>	28 232 <u>e/</u>	24
Asphalt roads (kilometres)	2 862 <u>d/</u>	3 784 <u>e/</u>	32
Energy, installed capacity (MW)	303 <u>d/</u>	525 <u>e/</u>	73
Automatic telephones (thousands of units)	97 <u>d/</u>	157 <u>e/</u>	62
Total gross investment (millions of sucres at 1974 prices)	7 823	12 506	60
Imports of capital goods, CIF (millions of dollars)	126	438	249
Imports of capital goods, CIF (millions of dollars at 1970 prices) <u>c/</u>	115	299	161
Total central government expenditure (millions of sucres at 1970 prices)	11 398	17 288	52
<b>External variables</b>			
Exports of goods and services (millions of dollars)	367	1 406	283
Exports of goods and services (millions of dollars at 1970 prices) <u>c/</u>	335	961	186
Exports of manufactured products (millions of dollars) <u>f/</u>	35	120	246
Exports of manufactured products (millions of dollars at 1970 prices) <u>c/</u>	32	82	159
Imports of goods and services (millions of dollars)	460	1 449	215
Imports of goods and services (millions of dollars at 1970 prices)	450	990	136
International assets of the Central Bank (millions of dollars)	143	515	259
International assets of the Central Bank (millions of dollars at 1970 prices) <u>c/</u>	131	351	168

/Table 10 (concluded)

Table 10 (concluded)

	1972	1976	Percentage variation
External debt (millions of dollars) g/	404	731	81
External debt (millions of dollars at 1970 prices) c/	369	499	35
Relationship between external debt servicing and exports of goods and non-financial services (percentage)	10.1	3.6	-
Financial variables			
Quantity of real money supply (millions of sucres at 1970 prices)	5 953	10 383	74
Per capita real money supply (sucres at 1970 prices)	930	1 422	53
Money supply as a percentage of gross domestic product (percentage)	14.1	14.2	-
Total financial savings including money supply (millions of sucres at 1970 prices)	13 239	22 362	69
Real bank credit to the private sector (millions of sucres at 1970 prices)	11 398	17 288	52
Total securities transacted in the stock exchanges (millions of sucres at 1970 prices)	400	1 528	282
Shares transacted in the stock exchange (millions of sucres at 1970 prices) h/	8.2	11.6	42
Wages and prices			
Real minimum wage index	100	141	41
Consumer price index	100	175.2	151/
Gross domestic product as implicit deflator	100	174.5	151/
Welfare variables			
Number of inhabitants per doctor	2 232	1 953	-
Number of inhabitants per hospital bed	458	523	-
Percentage of population with piped water			
Urban	63.1	69.4	-
Rural	7.3	8.0	-
Percentage of population with sewerage			
Urban	51.2	54.5	-
Rural	2.7	8.1	-
Percentage of population with electricity			
Total	33.0	46.0	-
Urban	69.0	89.0	-
Rural	8.0	14.0	-
Unemployment as a percentage of active population	3.6	3.6	-
Per capita calorie consumption	1 784j/	1 985j/	-
Per capita protein consumption	41k/	37k/	-

Source: CEPAL, on the basis of official statistics.

a/ Total enrolment divided by the population aged 6 to 11 years.

b/ The variations in the dollar values of the indicators are not different from the variations in national currency at current prices, owing to the stability of the exchange rate between the two dates considered.

c/ Values in dollars at current prices, deflated by the gross domestic product of the United States.

d/ 1970.

e/ 1975.

f/ The increase in growth is due to cocoa preparations and sea products. Also included are sugar, hats and artisan-type products, which are traditional exports. The Andean Agreement has made it possible to export electrical household appliances, ball-point pens, zip fasteners, etc., to neighbouring countries.

g/ Public sector debt, or debt guaranteed by the public sector, with original maturity of over one year. Excludes credit from the International Monetary Fund.

h/ Figure included in item NQ 37.

i/ Annual average.

j/ 2 300 calories is the internationally recommended level. Data for 1968 and 1974.

k/ 62 grams of protein is the internationally recommended level. Data for 1968 and 1974.

/The course

The course followed by the capacity to import was also influenced by the flow of investment in the petroleum industry and other sectors of the economy. Added to this in the last few years was the greater use of external credit permitted by Ecuador's increased payments capacity.

The major part of the petroleum resources benefited the State. Between 1972 and 1976 real total expenditure of the central government rose 52%. The main increase was in investment expenditure, but current expenditure also expanded considerably. Many decentralized, provincial and municipal bodies also participated in this expansion.

The private sector has benefited considerably from this fiscal spending in the form of subsidies, reduction of taxes and customs duties, and the establishment of public or semi-public enterprises, all of which has favoured private activities.

The development of Ecuador's economic and foreign trade has also had a favourable impact on the financial sector, strengthening existing institutions and establishing new ones. Thus, in real terms, financial savings, per capita money supply and bank credit to the private sector increased by proportions ranging from 52 to 69% between 1972 and 1976. Over the same period the fiduciary bonds transacted in the Stock Exchange increased almost four-fold and the shares transacted rose by 42%.

(b) Production increases

While in the decade ending in 1971 the country's gross domestic product grew at an annual rate of 4.6%, in the period between 1972 and 1977 the rate was slightly over 10% per year. In view of the population growth rate of 3.2% annually (see reference tables 79 and 80 at the end of this part of the Survey) the increase in per capita production during the decade was 1.3% annually, while from 1972 to 1977 it was 6.5%.

This favourable situation has been reflected in other branches of production, excluding petroleum. Ecuador's gross domestic product, without considering petroleum activity, grew at an average annual rate of 9% in 1972-1974 and a rate of over 8% between 1975 and 1977. For the non-petroleum sectors considered as a whole the production increase has been much more

/stable (see

stable (see table 11). Thus, for example, in 1975 when petroleum activity declined, the product generated by other economic activities expanded by 7.4%, which is a fairly favourable performance if the depressive conditions prevailing in the world economy and the appreciable drop in the growth rate recorded that year for the rest of Latin America are taken into account.

Between 1972 and 1976 the total production of final goods and services at constant prices increased by 58% and the per capita product by 38%. In its turn, manufacturing output in 1976 was 55% more than in 1972. Production of wood and furniture, plastics, non-metallic mineral products, intermediate metallurgy, electrical machinery and appliances, and machinery other than electrical and vehicles recorded considerably higher growth rates than the global index. Electric energy generation expanded by 59% and cement consumption by 64% (see table 10).

Agricultural production improved considerably between 1972 and 1976 (30%), thus departing from its traditional pattern of low growth, but in 1977 the sector once again expanded slowly.

Total gross investment grew by 60% and imports of capital goods, in terms of foreign currency at constant prices, rose by 160%.

(c) Effects on income distribution and welfare

The data available for 1968 and 1975 indicate that the higher income appears to have mainly favoured the middle and lower middle income sectors, while the share of the poorest 20% of the population in total income declined (see table 12). This point will be dealt with again later.

On the other hand, positive changes were noted in the demographic and welfare indicators. The birth rate dropped by 5% between 1972 and 1976 and the mortality rate by 10%. The literacy rate which covered 70% of the country's population in 1972 increased to 75% in 1976. There were increases in the consumption of calories, in the number of doctors per inhabitant, and in the percentage of the population with piped water, sewerage and electricity. There was, however, a setback in the consumption of protein.

Table 11

ECUADOR: GROWTH RATES OF GROSS DOMESTIC PRODUCT AND IMPACT OF PETROLEUM

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
Gross domestic product										
Total	4.7	4.0	5.9	5.0	7.0	18.7	17.6	3.4	9.7	6.5
Excluding petroleum	4.7	4.0	5.9	5.0	4.7	12.0	10.4	7.4	9.0	8.1
Petroleum	-	-	-	-	2 087.0	308.0	102.7	-22.8	16.2	-8.2

Annual growth rates

	<u>1969-1971</u>	<u>1972-1974</u>	<u>1975-1977</u>
Total	5.0	14.4	6.5
Excluding petroleum	5.0	9.0	8.2

Source: Central Bank, Technical Management, Cuentas Nacionales, 1977.

<sup>a/</sup> Preliminary figures.



Table 12

EQUADOR: DISTRIBUTION OF INCOME

Population strata	Average incomes per stratum (suores at 1975 prices)		Share in total income (percentages)	
	1968	1975	1968	1975
Poorest 20%	419	444	3.4	3.0
Lower middle 30%	1 036	1 580	12.6	16.0
Middle 25%	2 041	2 785	20.7	23.5
Upper middle 15%	3 782	4 602	23.0	23.3
Higher 5%	6 257	6 346	12.7	10.7
Upper 5%	13 599	13 937	27.6	23.5
(Top 0.5%)	(22 363)	(29 129)	(4.6)	(4.9)

Source: INEC, National Household Survey (1968) and National Population and Employment Survey (1975).  
Study by Moncada and Villalobos, Distribución del ingreso, estructura productiva y alternativas de desarrollo, FLACSO, November 1977.

(d) Growth disequilibria

The economy has shown significant disequilibria in its recent development. The first instance relates to the marked differences between the rates of growth of the various economic sectors. While manufacturing and construction have reached high rates of expansion, it was not until 1973 that this happened in agriculture, especially that producing food for the home market. Another instance of disequilibrium has been the somewhat uneven growth of the various regions in the country. While the most important urban centres and two or three more in the provinces have shared extensively in the petroleum bonanza, the rural regions and other urban centres seem to have been hardly affected by the radical change occurring in the country's economic conditions. The distribution of income among the various social sectors may also be regarded as uneven.

## II. USE OF PETROLEUM POTENTIAL TO PROMOTE DEVELOPMENT

The positive aspects or benefits deriving from petroleum exports are considered, first of all, in terms of the changes occurring in the external sector: increased capacity to import, changes in the flows and volume of trade and modifications in other elements of the balance of payments. Secondly, the effects on public sector finances are analysed since, as noted earlier, the State has been the main beneficiary of the new resources. This is followed by a review of developments in connexion with global and sectoral growth, income distribution and social development. Lastly, reference is made to the growth and diversification of the financial sector as a result of the expansion of trade, the increased size of the economy and its additional financing needs.

### 1. Expansion of the external sector

Although the extraordinary expansion of the external sector is mainly attributable to exports of petroleum, the increase in sales of other products was also significant owing to favourable world prices (coffee, cocoa) or the increased quantities exported (sea products and some manufactures). Some additional factors were the flows of private investment in petroleum and other economic activities and the disbursement of external credit, which rose sharply in 1976 and 1977.

Ecuador has tried to expand or maintain the markets for its traditional export products and to obtain the greatest possible advantages within the process of Latin American integration, especially in the Andean Group. Several tax, credit and other measures have been adopted with this end in view.

The balance-of-payments position showed a large surplus between 1972 and 1977, except in 1975 when a deficit of approximately 60 million dollars was recorded. As a result, the country's gross international reserves rose from 65 million dollars in 1971 to 670 million in 1977 (see table 13).

/Table 13

Table 13

ECUADOR: GROSS INTERNATIONAL RESERVES

(Millions of dollars)

Year	Total	Gold	SDRs	IMF position	Foreign exchange
1965	46.0	11.2			34.8
1966	61.1	11.0			50.1
1967	69.1	17.1			52.0
1968	57.3	26.2			30.6
1969	65.0	22.1			42.9
1970	83.2	19.0	0.1		64.1
1971	64.7	20.2	3.6		40.9
1972	143.4	13.5	7.3		122.6
1973	241.1	16.3	6.7	6.8	211.3
1974	349.9	16.5	7.9	11.3	314.2
1975	285.6	15.8	7.4	15.5	247.0
1976	514.7	16.3	7.0		491.4
1977	670.5	17.0	9.7		643.8

Sources: International Monetary Fund, International Financial Statistics, April 1978.

(a) Trade in goods and services and the terms of trade

Petroleum began to be sold in August 1972 and in that year exports of goods totalled 320 million dollars, which represented a 36% increase over the previous year and 60% over the average for the five-year period 1966-1970; the following year exports rose to 580 million dollars, 280 million of which were petroleum exports.

Subsequently, sales abroad exceeded 1,200 million dollars as a result of the sharp rise in fuel prices. The fall in the value of exports in 1975, in its turn, was due to a drop in the physical production of crude, and the rise in 1976 was mainly due to the increase in sales of coffee (which rose 140 million dollars), and of cocoa preparations (40 million dollars) which have gradually replaced exports of cocoa beans (see table 14).

Bananas, which were the main export from 1950 to 1971, have remained at the same level in the last few years, generating foreign exchange earnings that have fluctuated between 125 and 150 million dollars annually. Sugar, which recorded a considerable increase in 1974 with the sharp rise in the world price, showed a decline in subsequent years and produced an income of only 14 million dollars in 1977.

Several other products of less significance have expanded rapidly in the last few years. The most important among these are fish products and preparations, whose sales rose from 16 million dollars in 1972 to 66 million in 1977. Exports of other goods such as abaca fibre, wood, metal manufactures, electrical household appliances, articles of textile fibres, hats and pharmaceutical products also increased appreciably during this period.

Imports of goods have followed in the wake of the rising movement of exports. Their fluctuations have also been influenced by the variable flow of private investment and external credit and by the internal measures adopted by the authorities in 1975 to counteract the drop that was occurring in international reserves. The average international reserves in the period 1973-1976 stood at nearly four times the amount observed in 1966-1970. In 1972, imports fell by approximately 25 million dollars, basically owing to the conclusion of investment in the oil industry. In 1973 they rose to 400 million dollars, i.e., by 40% over the previous year's level. In 1974 they grew by

Table 14  
ECUADOR: BREAKDOWN OF EXPORTS OF GOODS (FOB)

	1968	1970	1972	1974	1976	1977 <sup>a/</sup>
<u>Millions of dollars</u>						
<u>Basic commodities</u>	<u>193</u>	<u>215</u>	<u>284</u>	<u>1 118</u>	<u>1 175</u>	<u>1 119</u>
Bananas	104	126	125	129	144	149
Cocoa	39	22	24	103	33	58
Coffee	35	50	47	68	205	155
Fisheries products	4	5	13	17	34	34
Petroleum	1	1	60	792	726	713
Other	10	11	15	9	33	10
<u>Processed products</u>	<u>18</u>	<u>20</u>	<u>39</u>	<u>108</u>	<u>121</u>	<u>277</u>
Sugar and molasses	8	10	17	45	6	14
Cocoa preparations	3	3	6	23	62	182
Sea food preparations	1	2	3	12	20	32
Other	6	5	13	28	33	49
<u>Total exports</u>	<u>211</u>	<u>235</u>	<u>323</u>	<u>1 226</u>	<u>1 296</u>	<u>1 396</u>
<u>Percentages</u>						
<u>Basic commodities</u>	<u>91.5</u>	<u>91.5</u>	<u>87.9</u>	<u>91.2</u>	<u>90.7</u>	<u>80.2</u>
Bananas	49.3	53.6	38.7	10.5	11.1	10.7
Cocoa	18.5	9.4	7.4	8.4	2.5	4.2
Coffee	16.6	21.3	1.4	5.5	15.8	11.1
Fisheries products	1.9	2.1	4.0	1.4	2.6	2.4
Petroleum	0.5	0.4	18.6	64.6	56.0	51.1
Other	4.7	4.7	4.6	0.7	2.5	0.7
<u>Processed products</u>	<u>8.5</u>	<u>8.5</u>	<u>12.1</u>	<u>8.8</u>	<u>9.3</u>	<u>19.8</u>
Sugar and molasses	3.8	4.3	5.3	3.7	0.5	1.0
Cocoa preparations	1.4	1.3	1.8	1.9	4.8	13.0
Sea food preparations	0.5	1.0	0.9	1.0	1.5	2.3
Other	2.8	2.1	4.0	2.3	2.5	3.5
<u>Total exports</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank, Office of Monetary Studies, Department of Economic Indicators.

<sup>a/</sup> Preliminary figures.

/more than

more than twice as much as in 1973, while in 1975 and 1976 they stabilized at a value of a little over 1,000 million dollars annually, as a result of the enforcement of the above-mentioned measures. These measures determined a smaller demand for imports during the greater part of 1976. The following year, in contrast, the volume imported rose to about 1,300 million dollars (see table 15).

The composition of imports has recorded some changes. Raw materials and intermediate goods dropped from 50% of the total in 1970 to 42% in 1977. Imports of capital goods, for their part, showed a rising trend - from 30% in 1970 to 45% in 1976-1977 - coinciding with the growth of the investment coefficient that took place in this period. The share of imports of consumer goods, in their turn, dropped from 13% in 1970 to 10% in 1976. Finally, imports of fuels and lubricants practically ceased (see table 16).

So far in the 1970s Ecuador has profited from the terms of trade. Although the unit value of imports increased steadily owing to world inflation, the average prices of exports rose considerably in 1973 and 1974 owing to the rise in oil prices. Accordingly, the terms of trade were 56% higher in 1976 than in 1970. It should be borne in mind, however, that since 1974 this relative advantage has diminished. If petroleum is excluded, the terms of trade dropped nearly 18% between 1970 and 1975, and in 1976 they regained their 1968 level thanks to the sharp increases in world coffee and cocoa prices (see table 17).

Services other than of a financial nature recorded a negative balance for Ecuador which averaged 145 million dollars in the period 1973-1976. Nevertheless, the income from these services has grown significantly owing to the development of the Ecuadorian Merchant Fleet, the Ecuadorian Aviation Company and a considerable increase in tourism.

/Table 15

Table 15

ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	Average 1966-1970	1971	1972	1973	1974	1975	1976	1977 <sup>a/</sup>	Average 1973-1976
<b>Current account</b>									
Exports of goods and services	244	266	367	633	1 333	1 127	1 407	1 527	1 125
Goods FOB	205	238	323	585	1 225	1 013	1 296	1 396	1 030
Non-financial services	18	27	42	42	83	97	98	110	80
Imports of goods and services	-313	-438	-460	-653	-1 327	-1 379	-1 449	-1 844	-1 202
Goods FOB	-209	-306	-281	-397	-672	-1 006	-1 050	-1 365	-831
Non-financial services	-76	-96	-136	-112	-231	-308	-249	-377	-225
Net profits and interest on capital	-27	-35	-41	-138	-198	-49	-138	-148	-131
Profits	-20	-26	-31	-126	-202	-41	-108	-90	-119
Interest received	-	1	2	6	25	17	13	21	15
Interest paid	-7	-10	-12	-18	-22	-24	-43	-72	-27
Net transfers (total)	13	16	15	27	31	32	41	17	33
Private	5	8	8	8	16	13	14	10	13
Official	8	8	8	19	15	20	27	7	20
I. Balance on current account and transfers	-76	-156	-77	7	38	-220	-2	-300	-44
<b>Capital account</b>									
II. Long-term non-monetary capital	62	181	159	77	105	200	295	398	169
Direct investment in Ecuador	38	162	81	52	77	95	80	30	76
Private long-term credit	7	1	7	-1	20	42	43	46	26
Disbursements	12	1	8	1	35	59	64	99	40
Amortization payments	-4	-1	-1	-2	-15	-18	-21	-53	14
Long-term credit to the Government	17	18	72	26	9	63	172	322	67
Disbursements	29	48	105	60	90	90	205	424	111
Amortizations payments	-12	-30	-33	-35	-81	-27	-33	-102	44
III. Basic balance (I + II)	-13	25	82	84	143	20	293	98	125
IV. Short-term capital, including errors and omissions	17	-39	-11	7	-33	-45	-90	38	-40
Errors and omissions	15	-60	13	6	-29	-47	53	...	-4
Other	2	21	-25	1	-4	3	-143	...	-36
V. Allocations of SDRs	1	4	4	-	-	-	-	-	-
VI. Variation in international monetary reserves (III + IV + V)	-4	11	-74	-91	-110	65	-203	-136	-85
(minus sign signifies an increase)									

Source: Central Bank, Office of Monetary Studies.

a/ Preliminary estimate.



Table 16  
ECUADOR: BREAKDOWN OF IMPORTS OF GOODS (CIF)  
(Percentages)

	1968	1970	1972	1974	1976	1977a/
<u>Raw materials and intermediate goods</u>	<u>51.1</u>	<u>50.0</u>	<u>42.4</u>	<u>45.8</u>	<u>45.0</u>	<u>41.8</u>
Agriculture	1.9	2.0	1.4	3.8	2.3	2.0
Manufacturing	39.7	42.4	33.2	37.5	35.9	33.2
Construction	9.6	5.6	7.8	4.5	6.8	6.6
<u>Capital goods</u>	<u>30.5</u>	<u>30.0</u>	<u>39.5</u>	<u>34.6</u>	<u>44.1</u>	<u>46.7</u>
Agriculture	2.7	2.8	1.4	2.1	2.6	2.0
Manufacturing	16.3	15.3	24.0	18.1	25.6	25.1
Transport	11.6	11.9	14.1	14.5	16.0	19.6
<u>Consumer goods</u>	<u>14.6</u>	<u>13.2</u>	<u>14.5</u>	<u>14.9</u>	<u>9.9</u>	<u>10.9</u>
Durable	5.4	5.1	5.1	7.6	4.0	5.3
Non-durable	9.2	8.1	9.4	7.3	5.9	5.6
<u>Fuels and lubricants</u>	<u>3.7</u>	<u>6.3</u>	<u>3.3</u>	<u>4.4</u>	<u>0.7</u>	<u>0.5</u>
<u>Other</u>	<u>0.1</u>	<u>0.5</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.1</u>

Sources: World Bank, Current Economic Position and Prospects of Ecuador, 1976, and Central Bank, Department of Economic Indicators.

a/ Preliminary figures.

Table 17  
ECUADOR: TERMS OF TRADE  
(1970 = 100)

Year	Index of unit price of exports <u>a/</u> (1)	Index of unit price of exports other than petroleum <u>a/</u> (2)	Index of unit price of imports <u>a/</u> (3)	Terms of trade	
				General (4=1:3)	Excluding petroleum (5=2:3)
1968	86.0	86.0	78.7	109.3	109.3
1969	89.0	89.0	80.9	110.0	110.0
1970	100.0	100.0	100.0	100.0	100.0
1971	99.9	99.9	106.1	94.2	94.2
1972	103.3	103.9	113.2	91.3	91.8
1973	146.0	126.6	131.0	111.5	96.6
1974	302.3	159.4	167.0	181.0	95.4
1975	267.5	155.5	189.5	141.2	82.1
1976	307.3	215.7	197.5	155.6	109.2

Source: Central Bank of Ecuador.

a/ Index of prices (in dollars) per kilogram.

/The net

The net balance of profits and interest was also a negative amount averaging 130 million dollars in the period 1973-1976. Contributing to this were remittances of profits on direct investment, particularly of the oil companies, but also on other direct private investment, and the increasing payment of interest on the external debt. The total profits shown for 1973 and 1974 are probably overestimated owing to the fact that, as noted earlier, in those years the reference price for petroleum was higher than the price the companies were able to obtain for their sales on the world market. They thus acquired from the Central Bank the difference which is recorded as part of the profits. The interest received by Ecuador mainly represents the proceeds from the investment abroad of the international currency reserve accumulated by the country (see table 15).

(b) Movement of capital and external indebtedness

The development of petroleum brought about an increase in foreign private investment, four-fifths of which, in the period 1968-1971, was channelled into this activity. In the next four years, however, there was a considerable increase in private investment in manufacturing, construction, commerce, finance, insurance, and the electricity, gas and water services. In spite of the decline in investment in the petroleum industry in the years 1972-1975, average private investment was only a little less than in the four preceding years (see table 18). Moreover, in the period 1968-1971 almost all the foreign investment came from the United States. In contrast, in 1972-1975 United States investment represented only 60% of the total and large sums were invested by the United Kingdom, the Federal Republic of Germany, Switzerland, the Netherlands, France, Japan and several Latin American countries.

Up to a few years ago the level and rate of Ecuador's external indebtedness had kept relatively low, if considered in comparison with both goods and services and the gross domestic product. The first external credits were received shortly after the Second World War and the first creditor was Eximbank, followed a little later by the International Bank

Table 18

ECUADOR: NET FOREIGN INVESTMENT BY ACTIVITY

(Millions of dollars)

	Annual averages	
	1968-1971	1972-1975
<u>Total</u>	<u>79.6</u>	<u>76.3</u>
Petroleum	64.3	18.6
Manufacturing	5.9	31.8
Construction	0.6	6.6
Commerce	3.9	8.8
Finance and insurance	0.6	5.0
Electricity, gas and water	-	7.9
Other	4.3	-2.4

Source: Central Bank of Ecuador, Balance of Payments Unit.

/for Reconstruction

for Reconstruction and Development. Added to these in the 1960s were the Inter-American Development Bank and the Government of the United States under the programme of the Alliance for Progress. Loans also began to be received from some governments of European countries and, concurrently, credit from private suppliers was gradually developed.

Between 1968 and 1971 the share of official credit in the debt declined and that of private credit increased. After that date and up to 1974 the reverse occurred owing to the policy adopted, whose aim was to contract loans only under favourable interest and repayment conditions. Since 1976 and particularly in 1977 a more flexible policy was put into effect for the contraction of external credit, mainly from private banks, which significantly increased the share of these institutions. Concurrently, the proportion of the disbursed debt in relation to the total debt contracted increased (see table 19).

The relation between debt servicing and exports of goods and services rose moderately in the period between 1968 and 1971 owing to the slow growth of exports. From 1971 onwards the coefficient declined steadily, reaching 5.8% in 1976 as a result of the policy of limiting external borrowing. This situation changed substantially in 1977 when the coefficient rose to 11.6% (see table 20).

As regards the terms of borrowing, the share of contracts for periods of over 15 years had considerably increased in the years 1973 and 1974, but declined in 1975-1977 when repayment periods of less than 10 years began to predominate. An improvement was also observable in interest rates in 1973 and 1974; in the next few years an extraordinary increase took place in non-identifiable interest rates, for the contraction of loans in Euro-currency at varying rates of interest (see table 21).

(c) Direction of trade and economic integration

Between 1972 and 1976 the geographical direction of trade showed some significant changes. Nevertheless, the large share of the United States has remained stable. In fact, both in 1972 and in 1976 nearly 35% of Ecuador's exports were destined for the United States and 38% of its imports came from that country (see table 22).

Table 19

ECUADOR: SHARE OF VARIOUS CREDITORS IN EXTERNAL INDEBTEDNESS

(Percentages)

	1968	1971	1974	1976
<u>Private credit</u>	<u>33</u>	<u>46</u>	<u>29</u>	<u>46</u>
Banks and financing institutions	5	9	12	31
Suppliers	28	36	16	13
Bonds	1	1	-	1
<u>Official credit</u>	<u>66</u>	<u>54</u>	<u>71</u>	<u>54</u>
Multilateral	34	27	47	23
Bilateral	32	27	24	31
<u>Total debt</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Disbursed	59	56	54	70
Not disbursed	41	44	46	30

Source: Central Bank of Ecuador, Balance of Payments Unit.

Table 20

ECUADOR: RELATION BETWEEN EXTERNAL DEBT SERVICING AND EXPORTS OF GOODS AND SERVICES

(Millions of dollars)

Year	Servicing of external debt	Exports of goods and services	Service payments as a percentage of exports
1968	19	226	8.4
1969	21	216	9.7
1970	23	259	8.9
1971	33	266	12.4
1972	37	367	10.1
1973	46	633	7.3
1974	117a/	1 333	8.8
1975	66	1 127	5.9
1976b/	82	1 406	5.8
1977c/	177	1 527	11.6

Sources: IBRD; IDB, El endeudamiento externo de América Latina, May 1977; and Central Bank of Ecuador.

a/ Including an extraordinary amortization payment of US\$ 40 million to the Manufacturers Hanover Trust.

b/ Preliminary figures.

c/ Estimates.

/Table 21

Table 21  
ECUADOR: STRUCTURE OF ANNUALLY CONTRACTED EXTERNAL DEBT  
(Millions of dollars)

	1972		1973		1974		1975		1976		1977 <sup>a/</sup>	
	Value	Percent age	Value	Percent age	Value	Percent age	Value	Percent age	Value	Percent age	Value	Percent age
<u>Maturity period</u> <u>in years</u>												
0 - 5	14.8	13.2	2.4	2.9	-	-	6.9	4.2	18.7	5.7	24.2	3.7
5 - 10	47.6	42.5	8.6	10.5	5.3	4.4	88.4	53.9	216.2	66.1	439.3	67.9
10 - 15	10.0	8.9	10.5	12.8	-	-	23.9	14.6	7.0	2.1	97.5	15.1
Over 15	39.6	35.4	60.3	73.8	116.1	95.6	44.7	27.3	85.4	26.1	86.4	13.3
<u>Total</u>	<u>112.0</u>	<u>100.0</u>	<u>81.8</u>	<u>100.0</u>	<u>121.4</u>	<u>100.0</u>	<u>163.9</u>	<u>100.0</u>	<u>327.3</u>	<u>100.0</u>	<u>647.4</u>	<u>100.0</u>
<u>Interest rates</u> (annual percentage)												
0 - 3	39.6	35.4	41.9	51.2	59.4	49.0	21.1	12.9	11.8	3.6	12.6	1.9
3 - 6	2.5	2.2	-	-	1.5	1.2	33.9	20.7	-	-	31.3	4.8
6 - 9	69.9	62.4	20.4	24.9	58.0	47.8	62.7	38.3	151.1	46.2	141.8	21.9
Over 9	-	-	16.9	20.7	-	-	3.4	2.0	14.0	4.3	-	-
Unidentifiable	-	-	2.6	3.2	2.5	2.0	42.8	26.1	150.4	45.9	461.7	71.3
<u>Total</u>	<u>112.0</u>	<u>100.0</u>	<u>81.8</u>	<u>100.0</u>	<u>121.4</u>	<u>100.0</u>	<u>163.9</u>	<u>100.0</u>	<u>327.3</u>	<u>100.0</u>	<u>647.4</u>	<u>100.0</u>

Sources: International Monetary Fund, Ecuador: Recent Economic Developments, 1977; Central Bank of Ecuador, Balance of Payments Unit.

<sup>a/</sup> Preliminary figures.

Table 22  
ECUADOR: GEOGRAPHICAL DIRECTION OF TRADE  
(Percentages)

	Exports of goods (FOB)		Imports of goods (CIF)	
	1972	1976	1972	1976
United States	34.5	34.7	38.3	37.8
Japan	15.3	1.2	11.9	14.6
European Economic Community	18.8	10.3	18.3	18.8
Other countries of Western Europe	2.2	2.3	12.6	8.5
CMEA a/	4.0	4.1	1.5	1.0
Panama	4.9	13.3	-	-
LAFTA	11.4	26.0	12.3	14.1
(Andean Group)	(9.3)	(24.5)	(8.1)	(9.6)
Other countries	8.9	8.1	5.1	5.2
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank, Annual Report, 1973 to 1976.

a/ Council for Mutual Economic Assistance (socialist countries of Eastern Europe).

/Japan's share



Japan's share of exports has declined sharply with its recent switch to the Philippines as a supplier of bananas. On the other hand, imports from Japan have grown rapidly during those four years and their share rose from 12% in 1972 to around 15% in 1976. Exports to the European Economic Community represented a significantly lower proportion in 1976 than in 1972, on account of the fact that Ecuadorian oil has not been sold in Europe. Imports from the Community, however, retained a similar share in the two years considered.

Other countries of Western Europe reduced their share in Ecuador's sales while maintaining their proportion of its purchases. The socialist countries of the Council for Mutual Economic Assistance showed no significant changes in their relative proportions. Ecuador has sold them mainly bananas and coffee, but reciprocal trade has been fairly unbalanced since imports stood at fairly low percentages. Since this trade is effected under bilateral payments agreements, surpluses have accumulated in favour of Ecuador whose utilization has run into limitations.

Ecuador's exports to the LAFTA countries, particularly the members of the Andean Group, grew vigorously between 1972 and 1976, to the extent that in the last year considered they amounted to nearly 25% of total sales. This was largely due to the fact that Colombia, Peru and Chile are important buyers of Ecuadorian petroleum. Imports from those countries also increased appreciably, but at a lower rate than exports (see tables 23 and 24).

Being a small country, Ecuador has placed high hopes for its development on the integration of Latin America, and particularly on the Andean Group. Although its trade with those subregional markets has shown significant increases in both exports and imports, if petroleum is excluded the trade surpluses recorded in the last few years are converted into deficits.

In addition to Ecuador's trade in traditional products, the system of immediately opening up to external markets and the special régime favouring it as a relatively less developed country have enabled it to export to the countries of the Andean Group a certain quantity of manufactured products such as household electrical appliances, zip fasteners, ball-point pens, cocoa preparations, wood, textile fibres and other products which in 1976 totalled around 23 million dollars. Although this is not a very large sum compared with the country's total exports, it is of vital importance to the industries concerned.

Table 23  
ECUADOR: EXTERNAL TRADE WITH LAFTA  
(Millions of dollars)

Year	Exports of goods (FOB) (1)	Exports of goods, excluding petroleum (2)	Imports of goods (CIF) (3)	Balance (1-3) (4)
1967	14.9		12.5	2.4
1968	15.1		14.4	0.7
1969	15.9		31.0	-15.1
1970	20.2		34.7	-14.6
1971	25.5		50.4	-25.0
1972	37.1	31.4	38.8	+1.7
1973	91.6	46.2	57.6	34.0
1974	189.2	62.1	106.3	82.9
1975	206.0	66.5	124.1	81.9
1976	293.7	73.1	140.4	153.3

Source: Central Bank, Annual Report, 1973, 1974, 1975 and 1976.

Table 24  
ECUADOR: EXTERNAL TRADE WITH ANDEAN GROUP <sup>a/</sup>  
(Millions of dollars)

Year	Exports of goods (FOB) (1)	Exports of goods, excluding petroleum (2)	Imports of goods (CIF) (3)	Balance (1-3) (4)	Balance (2-3) (5)
1967	11.1		8.8	2.3	-
1968	11.1		10.8	0.3	-
1969	11.4		13.5	-2.1	-
1970	14.5		21.3	-6.8	-
1971	19.1		36.9	-17.8	-
1972	30.2	24.5	24.3	5.9	0.2
1973	76.9	34.5	36.7	40.2	-2.2
1974	171.2	44.9	61.1	110.1	-16.2
1975	184.8	45.3	76.7	108.1	-31.4
1976	276.4	55.8	95.5	180.9	-39.7

Source: Central Bank, Annual Report, 1973 and 1976.

<sup>a/</sup> Including trade with LAFTA.

/The rapid

The rapid growth of imports from countries in the two subregions was due to the concessions granted within the context of LAFTA, since Ecuador is not due to initiate the process of liberalization within the Andean Agreement until 1980. The Ecuadorian authorities have publicly announced their intention to seek a review of the concessions granted within LAFTA to the three largest countries (Argentina, Brazil and Mexico) without counterpart benefits.

Ecuador has great hopes of the agreements on sectoral programmes in industries such as petrochemicals, steel-making and the metal manufactures and machinery industries. In 1977 the Commission of the Cartagena Agreement adopted the sectoral programme for the motor vehicle industry. Thus it may be hoped that the difficulties and delays that have arisen on other occasions and have caused a certain amount of frustration can be overcome.

In the financial field of integration it should be noted that the total credit granted by the Andean Development Corporation up to the beginning of 1970 was about 200 million dollars, of which Ecuador has received somewhat more than 25%.

(d) External sector policies

The policies followed by the Ecuadorian authorities with respect to the external sector have pursued various objectives. They have aimed at maintaining the stability of the balance of payments and a level of international reserves that is considered adequate for the country's requirements. They have also endeavoured to reduce the effects of the balance-of-payments position on the volume of the means of payment. Other important objectives have been to achieve a supply of goods from abroad that will contribute towards the country's economic development or make consumer goods available at reasonable prices. In addition, they have attempted to prevent any disequilibria in the exchange markets which might undermine the stability of the national currency.

(i) Exchange policy. Throughout the 1970s Ecuador has had a dual exchange system in force. There is an official market in which the central rate fixed at 25 sucres per dollar has remained unchanged. The Central Bank purchases dollars at 24.80 sucres and sells them at 24.95 sucres, in accordance with provisions adopted in February 1973. The official market

accounts for about two-thirds of the transactions in foreign currency, which in 1976 represented approximately 1,100 million dollars. All operations in visible foreign trade, and some in invisibles as determined by the Central Bank, are effected in the official market. Government and public sector operations with other countries are also transacted here.

On the free market, which is operated by commercial banks and authorized money exchanges, foreign currency may be purchased and sold for all purposes other than those earmarked for the official market. The free market exchange rate fluctuates according to supply and demand, but the Central Bank has from time to time intervened in both purchases and sales.

Since August 1976 the Central Bank has been effecting so called free market operations directly with the public, but sometimes at a different exchange rate from that prevailing in the free market outside the Bank. The operations permitted in this new market are expressly defined in the resolution authorizing them. They are mainly the sale of a certain amount of foreign currency for foreign travel and other items, and for remittances of capital that has been registered with the Central Bank.

In the free market the sucre appreciated in value between 1972 and 1974. Subsequently, its value remained practically at the same level as in the official market up to October 1975. From that month up to the first quarter of 1977 the sucre tended to devalue, reaching 29 sucres to the dollar; but from the second half of 1977 to the beginning of 1978 the trend was reversed and the margin between the two markets reduced, so that early in 1978 the dollar was quoted at about 4% higher on the free market than on the official market.

As a result of the start of petroleum exports in August 1972 and of the inflow of short-term capital in the latter part of the year and the first part of 1973, a significant increase took place in the Central Bank's international reserves. On that occasion, the idea of revaluing the sucre was suggested in some circles, but was discarded by the authorities owing to the impact they thought this would have on traditional exports. Instead, it was decided to fix the central rate referred to above, and the official

/purchase and

purchase and sales rates. As a supplementary measure, some taxes on exchange operations were eliminated and the authorities were empowered to establish taxes on tariffs, while the Central Bank started to intervene in the free market with the object of keeping the two markets fairly close together.

On the same date, prior import deposits were eliminated, which meant freeing monetary resources to an approximate value of 1,000 million sucres. In 1973, taxes on imports of fertilizers for agriculture were eliminated and in the first quarter of 1974 there was virtually a general reduction in customs duties, though with greater emphasis on imports of capital goods and inputs for those economic activities which the authorities particularly wished to promote.

(ii) Balance-of-payments stabilization policy, 1974-1975. A temporary drop in petroleum exports which started in the second quarter of 1974 and the continuing expansion of imports made themselves felt on the international monetary reserves which began to decline in April 1974. Also contributing to this situation was the fact that the Central Bank, which had been a net buyer of foreign currency when it started operating on the free market, in 1974 became a net seller to a value equivalent to 35 million dollars. Hence in July and August 1975 the Central Bank adopted a number of measures aimed at re-establishing the equilibrium in the external accounts.

In July of that year imports of certain articles were temporarily suspended, a prohibition which was extended several times but was eliminated at the end of 1976. With the same end in view, a reclassification was made of the goods catalogued in List I (essential goods which constitute the major proportion of imports), and List II (comprising less indispensable goods). The goods classified in List I were divided into two segments, A and B, the first containing goods considered to be absolutely essential, and the second those of a less essential nature. Simultaneously, prior import deposits were re-established. Segment A of List I was excluded from these deposits; for segment B the deposit was the equivalent of 20%; and for the goods included in List II it was 30%, which had to remain in the Central Bank for 180 days. Some specific imports were exempted. At the same time, a decree was enacted establishing a tariff surcharge of 30% over the CIF value of imports of goods classified in List II.

/These measures,

These measures, combined with the currency restriction created by the balance-of-payments deficit, succeeded in restoring the balance and in the latter part of 1975 the Central Bank once again increased its reserves. For the whole year, however, the loss in foreign currency amounted to 65 million dollars.

In 1975 the Central Bank effected somewhat infrequent operations on the free exchange market, with the purpose of preventing an even greater drain on its reserves. Even after the improvement in the balance of payments at the end of 1975, however, the Bank considered that it could not operate in that market in view of the difference in the price of the dollar in the two markets. This was responsible for the decision of the monetary authority in August 1976 referred to above. The Central Bank's intervention from that date onwards was basically intended to prevent a wider gap between the official and the free dollar. Added to these considerations, at the end of 1976 the growth of the Central Bank's foreign exchange reserves was reduced owing to the heavy contracting of external loans from that time onwards. This sales policy continued up to the middle of 1977 when the value of the free market dollar started to decline.

(iii) Private investment and foreign loans policy. As regards foreign capital investment, Ecuador has officially observed the provisions of Decision 24 of the Cartagena Agreement. In the last few years, however, as already noted, foreign investment has been substantially higher than in the early 1970s and has been much more diversified in terms of economic activities and the countries from which it originates.

In January 1975 the entry of new foreign investment in the banking sector was prohibited, but this prohibition was lifted on 30 September of the same year. No foreign investment has been authorized for the construction of urbanization projects, buildings or dwellings of any kind, or for imports of products for the domestic market unless the companies concerned have some dynamic element for the expansion of production activities. The profits may be reinvested provided they derive from resources which the investor was entitled to remit out of the country.

/In the

In the early years of the petroleum era an attempt was made to limit the contracting of external loans. Taxes were even established on registered loans, a measure which was subsequently confined to short-term loans only. The aim was to obtain loans only on concessionary terms from multilateral credit institutions. Some examples of this policy were the advance repayment in 1974 of a loan from a United States bank, and the fact that the oil refinery at Esmeraldas was financed exclusively with national resources, a credit offered by Japan having been rejected. The policy changed, however, in the latter part of 1976 and in 1977, a period in which fuller use was made of external credit, mainly from banks, with the object of financing government and other public sector investment projects. Public income from petroleum has declined owing to the relative stability of foreign exchange earnings from this activity, and because they have been converted into sucres at a fixed exchange rate, while a parallel rise took place in domestic prices.

(iv) Export promotion policy.. The authorities have been conscious that the country must promote exports and grant special preferences for non-traditional and industrial exports. Two important economic policy instruments which the Government has used for this purpose are taxes on exports and the tax rebate certificate (CAT).

During the present decade export taxes have at different times and rates affected commodities such as cocoa, bananas, coffee, sugar, petroleum, shrimps, and products manufactured by enterprises under the Artisan-Type Industry Promotion Law. In August 1970 nearly all export taxes were raised by varying percentages for a number of products with the object of limiting the profit obtained from the rise in the exchange rate from 18 to 25 sucres to the dollar which was decreed at that time. For example, in the case of coffee which would have obtained a net profit of nearly 39% from the devaluation, the profit was reduced to 21% due to the tax.

Export taxes on bananas were eliminated in 1971 for the Gross Michel variety (a non-resistant commodity which is hard to sell on the world market) and for those exported through the port of Esmeraldas. In 1972 the tax was also lifted on exports by small producers organized in banana co-operatives. Finally, in 1976, owing to the difficulties in marketing bananas, the export tax was completely eliminated.

/Coffee was

Coffee was subject to different export taxes, according to the type of coffee concerned, and to additional taxes, of which one of 15% was established at the time of the devaluation of the sucre in 1970. In May 1977 coffee exports were subject to a global tax of 35% on the FOB value, in replacement of the taxes in force at that time amounting to 27%. This measure was taken with the object of absorbing the additional income which coffee producers have been obtaining from the high prices of this commodity on the world market.

Sugar was taxed in 1970 by 15% of the FOB export value; the tax was reduced to 12% in 1974 owing to the difficult situation this commodity was facing on the world market. Shrimps, for their part, have been subject throughout the decade to the export tax of 10% which was established at the time of the devaluation.

The system of tax rebates has operated by means of a certificate issued by the Central Bank which serves to pay taxes to which the exporter may be liable and which is negotiable on the Stock Exchange. Tax Rebate Certificates are extended for exports by the agricultural sector, provided the FOB export value of the commodity concerned had been less than 5 million dollars in 1970. The rebate is equal to 4%. For exports by small-scale and artisan-type industry governed by the relevant law, there are rebates equivalent to 5 or 10% of the export value, according to whether the exporters are private persons or enterprises. With respect to larger industries which are governed by the Industrial Development Law, when the export value of the product had been less than 3 million dollars in 1970, tax rebate percentages are granted, ranging from 7 to 15% according to a sliding scale which rises in accordance with the export value of the product concerned.

In 1977 a tax rebate was also established for exports of raw sugar, according to a scale of percentages moving in inverse proportion to world market sugar prices. This rebate may be as high as 15% of the FOB export value when the world price drops to less than 7 US cents per pound. On the other hand, the tax rebate of 15% for semi-processed cocoa products has been reduced to 5% since September 1977.

/The taxes



The taxes paid with tax rebate certificates amounted to 350 million sucres in 1976, a sum equivalent to about 2% of the current income of the central government, and in 1971 their maximum value was 370 million sucres, or equivalent to 8% of that income.

The various activities have tried to stimulate the export trade not only by means of tax measures but also through credit policy. The Central Bank performs discount operations directly with exporters in order to finance traditional exports of goods for up to one year. The Values Commission has established an Export Promotion Fund (FOPEX) which is designed to finance non-traditional exports. This Fund has access to rediscount operations and financing by the Central Bank.

In 1976 the Central Bank drew the attention of the International Monetary Fund authorities to the harm which Ecuador's trade may suffer owing to the exchange practices of some countries of the region of periodically devaluing their currencies, in the opinion of the Ecuadorian authorities to a greater degree than the inflationary pressures in those countries would appear to warrant, which enables them to gain competitive advantages in their trade.

Recently, the Monetary Board has decided to create an export bond for the purpose of setting up a fund whose initial financing would consist of contributions of 1,000 million sucres from the National Development Fund and the Central Bank. This bond will be sold on the market and its object is to be able to finance the production of exportable goods in the medium and long term. It is hoped that such credit may be granted for periods of two to six years. The issue provides for tax exemption for the buyers. Another possibility under study by the authorities is the establishment of a system of export credit insurance, but this has not yet been put into practice.

## 2. Public sector action

With the start of petroleum exports in 1972, government revenue soared. In that year petroleum income already amounted to over 12% of total income. In 1973 the percentage rose to 25% and in 1974 to 38%. In contrast, income from petroleum declined in 1975, and despite a recovery in 1976 its share in total government revenue continued to decrease. Moreover, if in the future there is no appreciable increase in the price and volume of petroleum exports and the exchange rate remains stable, the share of petroleum income in total government revenue may continue to decline.

As a result of the above trends, the total fiscal deficit, which had shrunk to very small proportions between 1972 and 1975, rose sharply in 1976 and 1977. The higher external loans in those years replaced the static income from petroleum.

The real non-petroleum income over that period showed a declining trend, except in 1976 when it increased owing to the higher yield obtained from the tax on coffee exports. Between 1970 and 1975 the elasticity of non-petroleum income was 0.7. No important tax reform was carried out during the period and any tax changes were primarily in the nature of an economic stimulus rather than an attempt to obtain higher fiscal revenue.

Real government expenditure grew substantially, especially in 1973 and 1974, and the item that increased most intensively was investment. In 1966 and 1977 the financing of the deficit, which before the petroleum era was mainly of domestic origin, consisted chiefly of foreign credit.

(a) The public sector: concepts and scope

Ecuador's public sector has followed much the same course of development as other Latin American countries, in the sense of gradually establishing numerous decentralized autonomous bodies during the process of its expansion. For the purposes of this study, particular account is taken of the evolution of the central government, including in this concept the traditional government budget, the National Development Fund (FONADE) and the National Participations Fund (FONAPAR). The first of these Funds was set up in 1974 with the purposes already described. The second, which is much smaller than the first, is designed to collect certain items of central government income which are divided up and distributed among the local or municipal governments. All three entities are considered as constituting the central government, because consolidated information is available on their total activities on a more comprehensive and reliable basis.

At the national level there are also a number of semi-autonomous bodies each of which has some specific function and manages its affairs with a certain degree of independence. Chief of these institutions is the Ecuadorian State Petroleum Corporation, followed in order of importance by the Ecuadorian Electrification Institute, the Industrial Development Centre of Ecuador, the Ecuadorian Water Resources Institute, the National Agricultural Research

/Institute and

Institute and the National Agrarian Reform and Land Settlement Institute. There is also a group of State enterprises such as the national post office, the railways, the Ecuadorian Telecommunications Institute; and a number of financial institutions like the Central Bank, the National Development Bank, the Ecuadorian Housing Bank, the Values Commission-National Financing Corporation, which should also be considered as part of the public sector. There are also many bodies at the provincial and municipal level.

Ecuador has traditionally followed and still maintains a system whereby many taxes or percentages of taxes are assigned to certain specific purposes, whether institutions or special accounts or funds which are handled by some of the public sector institutions. An example of this may be seen in the distribution of the petroleum resources referred to above. Although there have been some attempts from the technical point of view to achieve the unification and more efficient use of public sector income, they have not materialized as they have come up against the opposition of regional and local bodies which feel they are more secure if they can rely on income which does not depend on decisions by the central authority.

There are no complete or reliable statistical data to provide information on the activities of the whole of the public sector after 1973. Therefore, most of the subsequent description and analysis are based on the finances of the central government. In order to give an idea of the size and importance of the rest of the public sector, however, that is to say of the semi-autonomous bodies, a consolidated table is included which contains an estimate for the period 1972-1976 of the main income and expenditure by category and of the surpluses or deficits and their financing (see table 25). In addition, table 26 presents an estimate for 1976 and 1977 of the total public sector deficit and the way in which it was financed.

(b) Evolution of the central government finances

A summary of the financial operations of the central government, including FONADE and FONAPAR, is presented in table 27. Here it may be seen that the considerable increase in petroleum income took place in 1972, 1973 and 1974. In nominal terms, there was a drop in 1975 and a recovery in 1976 to practically the same level as that recorded in 1974.

Table 25

ECUADOR: FINANCES OF SEMI-AUTONOMOUS PUBLIC SECTOR BODIES

(Millions of sucres)

	1972	1973	1974	1975	1976
Current expenditure	286.1	497.8	945.0	1 036.6	1 137.1
Capital expenditure	274.5	638.4	3 378.2a/	2 746.0	3 012.3
I. <u>Total expenditure</u>	<u>560.6</u>	<u>1 136.2</u>	<u>4 323.2</u>	<u>3 782.6</u>	<u>4 149.4</u>
Current income	176.2	283.2	412.4	452.4	496.3
Capital income b/	3.1	22.2	16.5	18.1	19.8
Petroleum income	133.0	254.8	1 145.4	1 256.5	1 378.4
II. <u>Total income</u>	<u>312.3</u>	<u>560.2</u>	<u>1 574.3</u>	<u>1 727.0</u>	<u>1 894.5</u>
III. <u>Net transfers</u>	<u>382.4</u>	<u>48.9</u>	<u>1 690.7</u>	<u>1 854.7</u>	<u>2 034.6</u>
Surplus (+) or deficit (-) (II+III-I)	134.1	-527.1	-1 058.2	-200.9	-220.3
Net indebtedness	-18.7	147.1	1 306.8a/	473.8	519.8
Variation in cash reserves (increase +)	115.4	-380.0	248.6	272.9	299.5

Sources: Estimates on the basis of data supplied by the Ministry of Finance, and Vega Moreno y Báez, Panorama de la situación económica del Ecuador en 1976, MADE, Quito, 1977.

a/ Including the purchase by CEPE of 25% of the TEXACO-GULF Consortium and the respective indebtedness.

b/ Excluding the contraction of new debts.

Table 26

ECUADOR: TOTAL PUBLIC SECTOR DEFICIT

(Millions of sucres)

	1976	1977 <sup>a/</sup>
1. Net credit from the Central Bank	3 799	6 812
(Disbursement of external loans in public sector deposits) <sup>b/</sup>	(3 506)	(8 825)
2. Credit from rest of the banking system (net)	-432	207
3. External loans to the public sector [(not included in (1))]	1 625	1 425
4. Bank and external financing for the public sector (1+2+3)	4 992	8 444
Budget, FONADE and FONAPAR	2 429	5 118
Rest of the public sector	2 563	3 326

Source: Estimates of the International Monetary Fund on the Basis of Central Bank data.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Included in net credit

Table 27

ECUADOR: SUMMARY OF CENTRAL GOVERNMENT OPERATIONS<sup>a/</sup>

(Millions of sucres)

	1968	1969	1970	1971	1972	1973	1974	1975	1976
A. Current income	3 094	3 560	4 420	5 832	6 979	9 949	16 234	16 663	20 535
Traditional	3 094	3 560	4 420	5 792	5 783	7 000	9 131	10 791	13 898
Petroleum					877	2 499	6 490	5 841	6 610
Other				40	319	450	613	31	27
B. Current expenditure	3 247	3 793	3 767	4 407	5 043	6 531	10 472	9 628	11 867
C. Current saving (A-B)	-153	-233	653	1 425	1 936	3 418	5 762	7 035	8 668
D. Capital income <sup>b/</sup>	-	71	55	69	48	89	906	2 655	2 518
E. Capital expenditure <sup>b/</sup> (fiscal investment)	1 041	1 167	1 433	1 909	2 165	3 821	7 239	9 934	13 837
F. Total deficit (C+D-E)	-1 194	-1 329	-725	-415	-181	-314	-571	-244	-2 651
G. Financing of the deficit	1 194	1 329	725	415	181	314	571	244	2 651
Domestic credit (net) <sup>c/</sup>	695	620	695	336	-115 <sup>d/</sup>	143	585	508	735
External credit (net)	125	-8 <sup>d/</sup>	57	57	443	35	35	-287 <sup>d/</sup>	1 847
Variation in cash reserves (increase-)	374	717	-27	22	-147	136	-49	23	69
H. Total deficit as a percentage of total expenditure	27.8	26.8	13.9	6.6	2.5	3.0	3.2	1.2	10.3
I. Current saving as a percentage of capital expenditure	-14.7	-20.0	45.6	45.6	74.6	89.5	79.6	70.8	62.6
J. Capital expenditure as a percentage of total expenditure	24.3	23.5	27.6	30.2	30.0	36.9	40.9	50.8	53.8
K. Total expenditure of central government	4 288	4 960	5 200	6 316	7 208	10 352	17 711	19 561	25 704

Sources: Ministry of Finance and National Planning Board.

<sup>a/</sup> Including the government budget, FONADE and FONAPAR.

<sup>b/</sup> Excluding contracting and amortization of public debt.

<sup>c/</sup> Including sales of securities to other public sector institutions and the use of the Central Bank Single Account.

<sup>d/</sup> Negative figures indicate amortization payments that are higher than credit disbursements.

/Between 1970

Between 1970 and 1976 a significant increase was also observed in current saving of the central government, which amounted to about 2% of the gross domestic product in 1970 and rose to over 6% over the whole period 1974-1976. This occurred even though current income reached its maximum level in 1974 - 17.3% of the gross domestic product - and dropped to less than 16% in the years 1975-1976, owing to the fact that current expenditure also declined: from 11.2% of the gross domestic product in 1974 to 9% in 1975-1976 (see table 28).

In current terms, capital expenditure increased ten-fold between 1970 and 1976, and its share of a rapidly increasing gross domestic product rose from 4.2% to 10.6%. Nevertheless, the rising trend of current saving kept the total central government deficit relatively low - less than 3% of total expenditure, on average - in the period 1972-1975.<sup>14/</sup> It was only in 1976 that the deficit rose to a fairly significant level equivalent to 10% of total expenditure.

During almost the whole period 1970-1976, domestic financing of the deficit was higher than external borrowing: the exceptions were due to events in 1972 and 1976, and later in 1977. In this respect it should be noted that the sale of public debt bonds to non-banking institutions which do not form part of the public sector has been relatively more difficult in recent years. This has been due to the limitations affecting the capital market which was operating with real negative rates of interest and, in addition, to competition from other securities such as mortgage bonds of the banking system and Central Bank stabilization bonds.

The irregular variation in the level of government expenditure has been influenced by the existing pressures to expand government action, but also, to a very large extent, by the evolution of the sources of financing. Thus in 1971 total fiscal expenditure, in current terms, increased by about 20% over the previous year's level, and in 1972 by 14%. With the Government's huge petroleum receipts, expenditure in 1973 rose by 44% and in 1974 by 70%.

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<sup>14/</sup> This trend was also influenced by the increase recorded by capital income in 1974 and 1975 (see table 27).

Table 28

ECUADOR: RELATIONSHIP BETWEEN CENTRAL GOVERNMENT INCOME AND EXPENDITURE AND THE GROSS DOMESTIC PRODUCT

(Millions of sucres)

	1970	1971	1972	1973	1974	1975	1976
Gross domestic product	34 275	40 247	47 102	63 575	93 585	108 246	130 183
Traditional income of central government/ gross domestic product (percentage)	12.9	14.4	12.3	11.0	9.8	10.0	10.7
Non-petroleum gross domestic product	34 233	40 203	46 010	58 079	78 386	95 270	113 694
Traditional income of central government/ non-petroleum gross domestic product (percentage)	12.9	14.4	12.6	12.0	11.6	11.3	12.2
Current income of central government/ gross domestic product (percentage)	12.9	14.4	14.8	15.6	17.3	15.4	15.8
Current expenditure of central government/ gross domestic product (percentage)	11.0	11.0	10.7	10.3	11.2	8.9	9.1
Capital expenditure of central government/ gross domestic product (percentage)	4.2	4.7	4.6	6.0	7.7	9.2	10.6
Total expenditure of central government/ gross domestic product (percentage)	15.2	15.7	15.3	16.3	18.9	18.1	19.7

Sources: Ministry of Finance, National Planning Board, and Central Bank, Cuentas nacionales, revised version, February 1978.

/When income



When income from petroleum dropped after 1974 and inflationary and balance-of-payments problems arose, the Government considerably reduced the rate of increase in its spending; thus an expansion of only 10% was recorded in 1975. If similar policies had been followed in 1976, with the aim of keeping down the fiscal deficit, the expansion of government spending would probably not have been more than 20%, while in actual fact it was over 30% because the government had access to additional external financing.

Most of the government's current income, excluding petroleum, has been obtained from external operations. Of this income, called traditional in the present document, import and export taxes contributed proportions fluctuating between 45 and 50% during the period 1972-1976. Taxes on consumption and production, in their turn, accounted for a steady 25% of total income, while taxes on income, excluding petroleum, contributed 16 to 18% of the total. Other taxes - on financial operations, capital and transport - and non-tax revenue represented less than 10% of the receipts (see table 29).

If the government's traditional income is compared with the gross domestic product of non-petroleum origin it will be observed that the relationship dropped from 13.3%, on average, in 1970-1972 to 11.7% in 1974-1976 (see table 29).<sup>15/</sup> The improvement recorded in 1976 was due to the sharp increase in export taxes that year owing to the high prices of coffee. If this factor is eliminated, the traditional income increased in a similar proportion to the rise in prices, i.e., a good deal more slowly than the expansion of the nominal product.

A World Bank study on the Ecuadorian economy <sup>16/</sup> analysed the fiscal finances between 1970 and 1975. The conclusion arrived at was that total current income of the government had an elasticity slightly higher than 1 in relation to the total gross domestic product, while the elasticity of non-petroleum taxes was only 0.7.

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<sup>15/</sup> The drop with respect to the total gross domestic product was greater: from 13.2% in 1970-1972 to 10.2% in 1974-1976.

<sup>16/</sup> See IBRD, Current Economic Position and Prospects of Ecuador, 1976.

Table 29

ECUADOR: COMPOSITION OF TRADITIONAL CURRENT INCOME<sup>a/</sup>

(Percentages)

	1972	1973	1974	1975	1976
Taxes on exports	8.1	6.1	5.7	3.3	11.7
Taxes on imports	39.2	47.3	45.4	43.8	37.7
Taxes on income (excluding petroleum)	17.0	15.6	15.5	18.7	16.6
Taxes on consumption and production	24.9	24.3	24.7	26.3	24.5
Taxes on financial operations, capital and transport	3.3	2.8	3.0	3.2	2.9
Non-tax income (rates)	7.5	3.9	5.8	4.6	6.6
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Central Bank Annual Report, 1976, and Fiscal Studies Unit.

a/ Excluding income from petroleum and other income not elsewhere classified.

The Integrated Change and Development Plan for the period 1973-1977 envisaged a fairly far-reaching tax reform that would raise to 1 the elasticity of the traditional current income of the government. In addition, it suggested that the tax system should be converted into an efficient instrument for orienting consumption, stimulating saving and channelling it into investment in production sectors, while making the tax burden of the various tax-paying sectors more equitable. Progress in that direction has, however, been limited.

The tax system has been intensively used, through the concession of exemptions and reductions, to stimulate some economic activities, particularly in the industrial and agricultural sectors. It has also been utilized with the object of softening the impact of the increased cost of living on the relatively lower income economic groups. Moreover, as noted earlier, there have been changes in foreign trade tariffs and taxes aimed at absorbing the excess profits of exporters, influencing the composition of imports, increasing their volume, or correcting disequilibria in the balance of payments.

April 1974 marked the entry into force of a new tariff law which meant a reduction of about 34% in the tax burden. The average tax which prior to the reform was slightly over 46% dropped to less than 31%. Subsequently, the aforementioned surcharge of 30% was imposed on the CIF value of the products included in List II, that is, on what were considered to be relatively luxury goods. This additional tax did not completely offset the reduction decreed previously.

As regards income tax, nearly all the changes introduced in the last few years have been designed to increase exemptions and deductions in respect of family dependants or the payment of rents on dwellings.

During the period considered, tax control systems have improved and in order to combat tax evasion the Single Tax-Payers Register was established which has facilitated the control of taxes and particularly income tax.

/(c) Public

(c) Public expenditure

If in the first place the structure of central government expenditure in the period 1970-1976 is examined, a considerable increase will be noted in capital expenditure compared with current spending. While in 1968 fiscal investment represented a little over 24% of total expenditure, the proportion increased steadily in the ensuing years to reach 54% in 1976 (see table 27). This increase occurred even after 1974, despite the drop in income from exports of petroleum. It constituted a factor promoting total investment in the country, which as a proportion of the gross domestic product rose from 16% to about 26% in 1976.

Public investment, for its part, came to have a much larger share in total investment. In 1970-1972 it constituted 24% of the total, while in 1974-1976 its share was 86%. Between 1970 and 1976 total investment grew at an annual rate of 10% in real terms, while public investment rose by around 20% (see table 30).

As regards the economic classification of total central government expenditure, spending on economic development increased its share between 1972 and 1974 and subsequently reduced it significantly. In contrast, expenditure on social development recorded the opposite trend. The share of defence spending grew steadily between 1972 and 1975 (see table 31).

The distribution of public investment underwent substantial changes between the period before petroleum was exported and that following it. The share of crop-farming and stock-raising, which averaged 8% in the years 1969-1971, was close to 11% in 1974-1975. In the latter period the share of hydrocarbons in total investment, which had not existed in the previous period, reached 17%. While in the three-year period 1973-1975 nearly all the investment in this sector was destined for the Esmeraldas refinery, in 1976 there was more expenditure on exploration and drilling activities and the upkeep of installations, owing to the State's larger share in oil production and export activities. There was also a very considerable increase in public investment in the field of hydroelectric energy, which rose from less than 10% in the period 1969-1971 to nearly 16% in 1974-1976. On the other hand, there was a drastic cut in the share of investment in transport, which from 53% in 1969-1971 dropped to 20% in 1974-1976. The share of investment in education rose slightly, while that invested in public health decreased (see table 32).

Table 30

ECUADOR: PUBLIC, PRIVATE AND TOTAL INVESTMENT

(Millions of sucres at 1970 prices)

	1970	1971	1972	Average 1970-1972	1973	1974	1975	1976	Average 1974-1976
Total gross investment	7 721	8 793	7 371	7 062	9 204	12 245	14 299	13 575	13 373
Private investment	5 934	6 373	5 531	5 946	6 149	7 868	9 425	8 499	8 597
Public investment	1 787	2 420	1 840	2 016	3 055	4 377	4 874	5 076	4 776
Public investment as a percentage of total	23.0	26.0	24.0	24.3	33.0	36.0	34.0	39.0	36.3

Source: Central Bank, Cuentas nacionales, 1977

Notes: Real annual growth rate of total investment from 1970 to 1976: 9.0

Real annual growth rate of public investment from 1970 to 1976: 19.5

Table 31

ECUADOR: STRUCTURE OF TOTAL CENTRAL GOVERNMENT EXPENDITURE

(Percentage)

	1972	1973	1974	1975	1976
General services	8.6	12.5	12.3	13.6	...
Economic development	13.1	28.2	31.5	26.9	22.2
Social development	29.6	34.6	32.1	34.4	36.5
(Education)	(26.7)	(29.1)	(23.8)	(26.3)	...
Defence	14.8	16.0	16.9	18.9	...
Other a/	33.9b/	8.7	7.2	6.2	8.7
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: World Bank, Current Economic Position and Prospects of Ecuador, 1976.

a/ Including interest on the public debt.

b/ In 1972 there was a large volume of unclassified expenditure.

/Table 32

Table 32

EQUADOR: DISTRIBUTION BY SECTOR OF PUBLIC INVESTMENT

(Percentage)

	1969	1970	1971	Average 1969-1971	1972	1973	1974	1975	1976	Average 1974-1976
Crop farming and stock-raising	9.0	7.0	9.0	8.3	8.1	7.2	7.9	12.1	11.9	10.6
Manufacturing	-	-	-	-	-	-	0.3	0.1	0.1	0.2
Hydrocarbons	-	-	-	-	-	2.3	9.7	22.2	19.7	17.2
Electric energy	6.0	10.4	12.5	9.6	13.9	18.0	12.0	12.7	23.0	15.9
Transport	48.0	58.0	51.9	52.6	51.2	39.4	42.5	28.2	17.9	29.5
Education	5.0	6.9	6.2	6.1	6.2	12.5	8.1	5.7	7.0	6.9
Health	4.0	1.9	1.7	2.5	1.7	4.2	2.0	1.4	1.8	1.7
Other sectors	28.0	15.8	18.7	20.8	18.9	16.4	17.5	17.6	18.6	17.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: National Planning Board and Central Bank, Cuentas nacionales, 1977.

/These changes

These changes in the structure of public investment took place in a context in which, in real terms, this investment increased from 1,800 million sucres in 1970 to 4,900 million, that is, at a very rapid rate equal to 18% annually (see table 33). In addition to the impact of capital formation on the production supply of the economy, the mobilizing effect of the demand which must have derived from that expansion is once again evident.

(d) Other aspects of public sector action

(i) Transfer of public resources to the private sector. The private sector not only benefited from the investment projects which the State has been able to execute directly, but it has also received a considerable volume of resources in the form of credit, tax reductions and subsidies.

Moreover, in the last few years the Government has set up a great many production enterprises, with or without the participation of private capital. These have covered lines such as flour, citrus fruit, tea, chemical and pharmaceutical products, petroleum refining, cement, sanitary material, wire, steel, copper, watches and forestry. According to data supplied by the National Planning Board, between 1970 and 1973 a total of 42 manufacturing enterprises were established with a public investment of over 4,000 million sucres (equivalent to 160 million dollars).<sup>17/</sup>

(ii) Employment in the public sector. There is no information available on the evolution of employment in the public sector during the period examined, but census data are available for 1975. The total number of public officials, at both the central and the regional, municipal and autonomous agency level, was a little over 150,000 persons; in addition, the Armed Forces provided employment for an estimated 23,000. Accordingly, government employment amounted to slightly over 8% of the total labour force.

(iii) Planning. The National Planning Board which has existed since 1954 presented at the end of 1972 the so-called Integrated Change and Development Plan for the five-year period 1973-1977.

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<sup>17/</sup> See José Mondaca and Fabio Villalobos, Distribución del ingreso, estructura productiva y alternativas de desarrollo, op. cit.

Table 33

ECUADOR: REAL GROWTH OF PUBLIC INVESTMENT BY SECTOR

(Millions of sucres at 1970 prices)

	1970	1976	Annual growth rate between 1970 and 1976
Crop farming and stock-raising	125.1	585.1	29.3
Manufacturing	-	4.9	-
Hydrocarbons	-	968.6	-
Electric energy	185.8	1 130.9	35.1
Transport	1 036.5	880.1	-2.8
Education	123.3	344.2	18.7
Health	34.0	88.5	17.3
Other sectors	282.3	914.6	21.6
<u>Total</u>	<u>1 787.0</u>	<u>4 917.0</u>	<u>18.4</u>

Source: National Planning Board.

/Although the



Although the Planning Board is represented in most of the bodies grouped in the public sector and in the relatively important decentralized institutions, its influence in the implementation of policies of the various sectors concerned with achieving the Plan's objectives is subject to certain limitations.

In some cases, decisions concerning investment have been influenced by private, political or regional considerations, which have affected the technical evaluation of the projects. In others, the necessary co-ordination has been lacking between the overall decisions taken by the Planning Board and those adopted in the various sectoral or more specific fields.

At present the Planning Board - which has considerable experience, a large well-trained staff, and has on many occasions had the benefit of advisory assistance from foreign or international institutions in carrying out its global or sectoral studies and analyses - is in the throes of preparing a new development plan for the period 1979-1983.

### 3. Impact of petroleum on growth and its characteristics

The main features of Ecuador's recent growth have been an increased share of manufacturing and construction, and of course mining, and a relative decline in agriculture. The evolution of employed population confirms these trends, but also showed a sharp rise in services, the only sector in which productivity per person decreased. Investment, for its part, grew vigorously, it came to be financed primarily with domestic saving, and public investment acquired an increasingly important role.

Manufacturing development was characterized by high capital per person employed and a high percentage of use of imported inputs. Alongside the more traditional lines, steps were taken to develop sectors with more advanced technology which were even able to export. The industries were located primarily in the major urban centres of the country.

Agriculture has continued to be the heel of Aquiles of Ecuador's economy, in spite of the fact that between 1974 and 1976 it recorded satisfactory increases owing to official measures to stimulate it. The basic problems are still unresolved and relatively slow headway has been made in agrarian reform. As regards the infrastructure, public investment activities have been directed mainly towards the energy sector.

/A certain

A certain amount of progress has been made in terms of social development and improvement, but marginality has decreased only slightly. As regards changes in the distribution of income, the middle sectors have improved their position at the expense of the upper sectors and, to a lesser extent, the poorest 20%.

(a) Structure of the product and of the active population

The rapid growth already noted above recorded a certain diversity in the course of the various economic activities. The sectors producing goods (excluding petroleum) grew at an average annual rate of 6.6% between the three-year periods 1968-1970 and 1974-1976. The annual rates of increase were relatively high for manufacturing (9%) and construction (15%), and much lower for agricultural production, i.e., an average of 3.7% annually, which was only slightly higher than the population growth rate. Nevertheless, between 1972 and 1976 agriculture went through a period of satisfactory growth since production increased at an average annual rate of over 6%. In the basic services subsector, in its turn, the annual increase rose to 10% between the three-year periods 1968-1970 and 1974-1976 (see table 34).

The different growth rates of the economic sectors determined changes in their respective share in the gross domestic product. A comparison of the periods 1968-1970 and 1974-1976, not considering the value added in the petroleum industry, shows that the share of the production of goods dropped from 54% to 51%, basically owing to the decline in agriculture. If petroleum is included, the share of goods shows an increase from 54% to 57% between the two periods considered. In this case, the sharp rise in mining and quarrying took place simultaneously with an even more pronounced drop than before in agriculture and a slight decline in manufacturing and construction (see table 35).

Between the averages for 1968-1970 and 1974-1976 the economically active population and the employed population grew at the same rate, 3.5% annually, which was a little higher than the rate of population growth. The number of unemployed increased at a similar pace, so that the open unemployment coefficient remained stable at a relatively low level (3.5%) (see table 36).

Table 34

## ECUADOR: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY

(Millions of sucres at 1970 prices)

	1968	1969	1970	Average 1968-1970	1971	1972	1973	1974	1975	1976	Average 1974-1976	Growth rate 1968-1970 to 1974-1976	1977 <sup>a/</sup>
Agriculture, forestry, hunting and fishing	9 810	10 418	9 471	9 900	9 887	10 058	10 909	11 547	12 297	13 113	12 319	3.7	13 296
Mining and quarrying	452	488	360	433	411	1 164	3 963	7 755	6 100	7 028	6 961	60.0	6 506
Manufacturing	4 715	5 167	5 671	5 184	5 870	6 335	7 184	7 778	8 783	9 634	8 731	9.1	10 980
Construction	1 275	1 205	1 441	1 307	2 289	1 658	2 069	2 900	2 986	3 289	3 058	15.2	3 424
Subtotal goods	16 252	17 278	16 943	16 824	18 457	19 215	24 125	29 980	30 166	33 064	31 069	6.6b/	34 206
Electricity, gas and water	330	373	406	370	421	460	488	614	633	742	663	10.2	872
Transport, storage and communications	1 680	1 774	2 319	1 924	2 406	2 677	2 997	3 082	3 496	3 634	3 410	10.0	4 005
Subtotal basic services	2 010	2 147	2 725	2 294	2 827	3 137	3 485	3 696	4 129	4 396	4 073	10.0	4 877
Commerce and finance	4 664	4 486	4 630	4 594	4 991	5 352	5 195	6 029	6 626	7 452	6 707	6.5	8 420
Ownership of dwellings	1 813	1 861	2 482	2 052	2 501	2 935	3 328	4 168	4 692	5 503	4 788	15.2	5 997
Government services	2 576	2 808	3 279	2 887	3 154	3 483	4 230	4 499	4 491	4 986	4 659	8.3	4 913
Other services	2 280	2 373	2 373	2 342	2 439	2 643	3 028	3 100	3 339	3 555	3 351	6.0	3 678
Subtotal other services	11 333	11 528	12 764	11 875	13 085	14 413	15 781	17 796	19 158	21 496	19 485	8.6	23 008
Gross domestic product at producers' prices c/	29 595	30 953	32 432	30 993	34 369	36 765	43 391	51 472	53 453	58 956	54 627	9.9	62 091
Percentage annual growth	4.5	4.6	4.8	-	6.0	7.0	18.0	18.6	3.8	10.3	-	-	5.3
Gross domestic product at producers' prices, excluding petroleum	29 595	30 953	32 390	30 979	34 329	35 890	39 821	44 234	47 865	52 463	48 181	7.6	56 128
Percentage annual growth	4.5	4.6	4.6	-	6.0	4.5	11.0	11.1	8.2	9.6	-	-	7.0

Source: Central Bank of Ecuador, Cuentas nacionales, revised version, February 1978.

a/ Preliminary figures.

b/ Excluding the petroleum industry.

c/ The difference between these values and the gross domestic product at purchasers' prices represents customs duties on imports.

Table 35

ECUADOR: STRUCTURE OF THE GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY

	Average 1968-1970	Average 1974-1976	
		Excluding petroleum	Including petroleum
Agriculture, forestry and fishing	32.0	25.6	22.6
Mining and quarrying	1.4	1.1	12.7
Manufacturing and construction	22.9	24.5	21.6
<u>Subtotal goods</u>	<u>54.3</u>	<u>51.1</u>	<u>56.9</u>
Transport, storage and communications	6.2	7.0	6.2
Commerce and finance	14.8	13.9	12.3
Government	9.3	9.7	8.5
Other services	2.9	6.9	6.1
Other sectors	12.5	11.4	10.0
<u>Subtotal services</u>	<u>45.7</u>	<u>48.9</u>	<u>43.1</u>
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Central Bank of Ecuador, Cuentas nacionales, revised version, February 1978.

Table 36

ECUADOR; DISTRIBUTION OF ECONOMICALLY ACTIVE POPULATION BY SECTOR

	Average 1968-1970		Average 1974-1976		Annual rate of variation between averages for 1968-1970 and 1974-1976
	Thousands	Percentage	Thousands	Percentage	
Agriculture, forestry, hunting and fishing	875	51.2	913	43.5	0.7
Manufacturing, construction and other activities	291	17.0	399	19.0	5.4
Commerce	169	9.9	229	10.8	5.2
Other services	254	14.9	416	19.8	8.6
Other sectors (mainly transport)	59	3.4	64	3.2	1.5
Employed population	1 648	96.4	2 021	96.4	3.5
Unemployed	61	3.6	76	3.6	3.7
Economically active population	1 709	100.0	2 097	100.0	3.5
As a percentage of the population	29.6		29.6		

Sources: Household surveys and population and housing censuses, and National Planning Board.

/The active

The active population in agriculture dropped from 51% in 1968-1970 to 43% in 1974-1976. This reduction was compensated for by increases in the share of manufacturing, construction commerce and, particularly, other services. In this last case, which was scarcely a genuine absorption, the annual growth rate was close to 9%.

The average production value per active person for the whole economy increased by 3.3% annually between the two periods concerned. The fastest growth was in manufacturing and construction (nearly 5% annually). It also increased in agriculture and commerce (at annual rates of 3% and 2.4%, respectively), while in other services there was a drop of 1% annually (see table 37, and at the end the reference table 81).

(b) Investment and its financing

The coefficients of gross domestic investment, both total and fixed capital, have increased significantly. In the case of total investment it rose from 21% in 1968-1970 to 26% in 1974-1976 and 29% in 1977. The relationship between fixed capital formation and the gross domestic product rose in its turn from 16% in 1968-1970 to 23% in 1974-1976 and to about 26% in 1977 (see table 38, and at the end reference table 82). Whatever criticisms these figures may merit, it must be stressed that they represent a significant achievement in terms of the use made of the country's increasing income in support of its subsequent development.

As noted earlier, during this period public investment recorded a notable increase in its share of total capital formation, i.e., from about 25% at the beginning of the 1970s to 36% in the three-year period 1974-1977. At the same time the role of domestic saving was enhanced. In fact, while external saving was equal to practically one-third of total investment in 1968-1970, in the period 1974-1976 it financed only 6% of it, and only because in 1975 the country experienced a large current account deficit in the balance of payments. The growing share of domestic resources in rapidly expanding investment was possible because the coefficient of domestic saving, as a proportion of the gross domestic product, rose from 9% in 1968-1970 to 21% in 1974-1977. Concurrently, as is only natural, there was a sharp drop in the total consumption/gross domestic product ratio.

Table 37

ECUADOR: PRODUCTION PER ACTIVE PERSON IN VARIOUS SECTORS

(Sucre at 1970 prices)

	Average 1968-1970	Average 1974-1976	Annual rate of variation between averages for 1968-1970 and 1974-1976
Agriculture, forestry, hunting and fishing	11 314	13 491	3.0
Manufacturing, construction and other activities	23 564	31 180	4.8
Commerce	25 426	29 288	2.4
Other services	20 582	19 206	-1.1
<u>Total for identified sectors</u>	<u>16 540</u>	<u>20 167</u>	<u>3.3</u>

Sources: Preceding table and Central Bank of Ecuador, Cuentas nacionales, revised version, February 1978.

Table 38

ECUADOR: EVOLUTION OF INVESTMENT AND ITS FINANCING

(Percentages)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<b>A. Investment coefficients</b>										
Gross domestic investment in fixed capital as a percentage of gross domestic product	16.2	15.7	15.2	22.2	18.9	17.8	20.0	25.1	22.6	25.5
Total gross domestic investment as a percentage of gross domestic product	20.3	20.0	22.5	24.9	20.2	21.1	24.0	28.4	25.7	28.8
<b>B. Composition of investment</b>										
Public investment	...	...	23	26	24	33	36	34	39	34
Private investment	...	...	77	74	76	67	64	66	61	66
<b>C. Financing of capital formation</b>										
Fixed capital consumption	27	28	25	22	28	26	22	20	22	19
Domestic saving	40	38	46	38	51	74	78	62	78	63
External saving	33	34	29	40	21	-	-	18	-	18
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>D. Savings coefficient</b>										
Saving of residents as a percentage of disposable national income	9	8	11	10	11	18	22	19	22	20

Source: Central Bank of Ecuador, Cuentas nacionales, revised version, February 1978.

a/ Preliminary figures.



(c) Growth of manufacturing and construction

Manufacturing industry is divided into three sectors, factory industry, small-scale industry and artisan-type industry. During the 1970s, factory industry has increased its share of the sectoral value added from 60 to 62%. The increase in small-scale industry has been even greater: from 3% to 8%. In contrast, the share of artisan-type industry has fallen from 37 to 30%. Of total manufacturing employment which was estimated at 320,000 persons in 1976, about 60,000 were working in factory industry and the rest in artisan-type industry (240,000) and small-scale industry (around 20,000).

The sector's growth has been extraordinarily rapid throughout the decade and the development programme targets have been fully attained. In five years it was hoped to establish 210 new enterprises with an investment of 10,000 million sucres, but in actual fact 220 enterprises were established with an investment of 11,000 million. Between 1970 and 1974 employment grew by 4,500 persons per annum (about 6% annually); the Plan provided for 3,200 new jobs per year for the period starting in 1973.

Many of the industries established manufacture raw materials for the production of foodstuffs, footwear, leather, wood, furniture, cement, textiles, marine products, oil, cocoa, coffee, etc. Other industries which have developed considerably include those producing pharmaceutical products, plastic materials, shaped and galvanized wire, helicoidal rocks, metal sewers, electronic calculating machines, television sets and plastic articles, and the assembly of motor vehicles. They all represent fairly final processes within the country and use a large quantity of imported raw materials and intermediate products. Although Ecuador's dependence on imported consumer goods has gradually declined, the need to import raw materials for the operation of industry has increased. Similarly, the production of intermediate and capital goods has developed to a much lesser extent.

In the process of manufacturing development between 1970 and 1976 there was an increase in capital per person employed and at the same time a decrease in the percentage of domestic raw materials used. This was largely due to the Industrial Development Law (1973) because of the tax benefits it provided for the inflow of capital and the reduction granted in customs duties on imported inputs; moreover, in granting benefits under this Law no account is taken of the additional employment generated by the new industry (see table 39).

Table 39

ECUADOR: CHARACTERISTICS OF FIRMS GOVERNED BY INDUSTRIAL DEVELOPMENT LAW

	1971	1972	1973	1974	1975	1976
Number of firms	47	57	85	78	74	53
Capital per person (dollars)	9 451	8 562	10 689	17 774	26 853	20 022
Domestic raw materials used as a percentage of total	77.5	78.4	64.0	43.9	53.1	53.0
Domestic value added as a percentage of production value	37.5	34.0	27.4	27.7	32.6	32.3

Sources: Ministry of Industry, Trade and Integration, and International Monetary Fund, Ecuador, Recent Economic Developments, 1977.

/In spite

In spite of the benefits provided by the Development Law for enterprises that might be established in places other than the Guayas and Pichincha provinces where the two most important urban centres are located, and of the favourable effects these provisions seemed to have in 1974, the percentage of industries established in other provinces decreased considerably in 1975 and 1976, even compared with the 1973 level. Thus over 90% of the industries installed in 1976 were established in the two provinces mentioned above (see table 40).

The main instrument of industrial promotion has been the 1973 Development Law whose implementation is in the hands of the Ministry of Industry, Commerce and Integration. This Law identifies four categories of industries. The special category comprises high-priority projects for which feasibility studies have been prepared and which are included in a list drawn up by the Planning Board. Category A includes those industries which export over 50% of their production, manufacture items utilized in agricultural, forest, industrial, mining or fisheries activities, or which replace imported items that are recorded in the respective annual list. Category B is composed of industries regarded as necessary for the country's economic development. Lastly, such enterprises as are not classified in the above categories are identified as registered.

The Law provides for a number of tax exemptions for specific periods or on an indefinite basis, and the duty-free entry of new machinery or auxiliary equipment, spare parts, or raw materials which are not produced in the country. It also allows tax deductions for new investment of capital stock. For these purposes, the benefits have been differentiated according to the area in which the industry is installed. There are some benefits that have been in force since before 1973, and these are currently applied to industries in the Guayas and Pichincha provinces. The rest of the provinces have been divided into two zones, according to the authority's desire to provide additional incentives for the establishment of industries in each of these groups of provinces. A summary of the incentives provided for by the National Development Law is presented in table 41.

Cuadro 40

ECUADOR: GEOGRAPHICAL LOCATION OF ENTERPRISES GOVERNED BY INDUSTRIAL DEVELOPMENT LAW

(Number of enterprises and percentages)

Area	1973		1974		1975		1976	
	Number	Percent age	Number	Percent age	Number	Percent age	Number	Percent age
Guayas	30	35	22	28	27	37	26	49
Pichincha	39	46	36	46	35	47	22	42
Rest of the country	16	19	20	26	12	16	5	9
<u>Total</u>	<u>85</u>	<u>100</u>	<u>78</u>	<u>100</u>	<u>74</u>	<u>100</u>	<u>53</u>	<u>100</u>

Source: Bulletins of the Ministry of Industry, Trade and Integration.

Table 41

## ECUADOR: INCENTIVES UNDER THE INDUSTRIAL DEVELOPMENT LAW

	Special category			Category "A"			Category "B"			Registered		
	Before 1973 <sup>a/</sup>	Zone 1 <sup>b/</sup>	Zone 2 <sup>c/</sup>	Before 1973 <sup>a/</sup>	Zone 1 <sup>b/</sup>	Zone 2 <sup>c/</sup>	Before 1973 <sup>a/</sup>	Zone 1 <sup>b/</sup>	Zone 2 <sup>c/</sup>	Before 1973 <sup>a/</sup>	Zone 1 <sup>b/</sup>	Zone 2 <sup>c/</sup>
Tax exemptions (except taxes on income and sales)	100% first 5 years	100% first 10 years	100% first 10 years	-	100% first 5 years	100% first 5 years	-	100% first 3 years	100% first 3 years	-	-	-
Exemptions from customs on new machinery, equipment and spare parts	100%	100%	100%	100%	100%	100%	100%	100%	100%	30%	50%	70%
Exemptions from customs duties on imported raw materials (not produced in Ecuador)	80% first 5 years, then 70%	90% first 5 years, then 80%	100% first 5 years, then 90%	Up to 65%	Up to 75%	Up to 85%	In special cases up to 40%	10% in special cases up to 50%	20% in special cases up to 60%			
Exemption from taxes on property transfers	100%	100%	100%	100%	100%	100%	-	50%	75%			
Tax deductions for new investment in:												
Fixed capital	50%	75%	100%	50%	75%	100%	50%	75%	100%			
Capital transfers	-	50%	100%	-	50%	100%	-	50%	100%			

Sources: Economic and Social Development Centre (CENDES) and Central Bank of Ecuador, *Invierta en el Ecuador*, 1977.

Note: Special category: High-priority projects, with feasibility studies, included in a list prepared by the National Planning Board.

Category "A": Industries exporting over 50% of their production manufacturing articles used in agricultural, forest, industrial, mining or fisheries activities, replacing imported articles and appearing on the respective annual list.

Category "B": Those deemed necessary for the country's economic development.

Registered: Manufacturing enterprises not classified in the preceding categories.

a/ Benefits granted prior to the 1973 Law.

b/ Including the Imbabura, Cotopaxi, Tungurahua, Chimborazo, Azuay, Esmeraldas, Manabí and El Oro provinces.

c/ Including Los Ríos, Carchi, Bolívar, Cañar, Loja and the eastern provinces.

There are some problems which have affected or could hinder the development of the manufacturing sector. One factor has been the lack of medium- and long-term credit, despite the strengthening of public financing institutions such as the Values Commission-National Financing Commission and the proliferation of some private financing companies the most important and oldest of which is COFEIC. Nor has this problem been solved with the establishment of credit facilities for loans of over three years. Furthermore, there is some uncertainty as to whether the easy conditions that have existed in the external sector in the last few years permitting the duty-free import of equipment and raw materials for industry will continue. There are also some deficiencies in the economic infrastructure, such as electricity cuts, lack of water, poor communications and, in the case of some industries, a shortage of skilled manpower.

The utilization of the installed capacity of industry has increased considerably of late: at the end of 1976 it reached 80% for the sector as a whole, whereas the comparable value for 1972 was approximately 60% (see table 42).

The authorities are planning the formulation and implementation of ambitious industrial development programmes in which they are hoping to take advantage of the facilities offered by the Andean subregional market. Among the projects to be carried out are the steel industry and the petrochemical industry, the latter based on the production of petroleum in the Oriente region and of natural gas from the Gulf of Guayaquil. They also hope to achieve considerable development in the motor-vehicle and metal manufactures and machinery field, taking advantage of the activities assigned to Ecuador within the Andean Group. The Government, moreover, is stimulating the development of agro-industries.

Construction, especially of dwellings, has developed fairly well during the last few years, particularly in the cities of Quito, Guayaquil and Ambato which have been above the national average (see table 43). The expansion has been less pronounced in other cities, and in Riobamba, for example, there has been a decline.

Table 42

ECUADOR: UTILIZATION OF THE INSTALLED CAPACITY OF INDUSTRY

(Percentage)

	1967	1972	1976		
			March	June	September
Total manufacturing sector	56.0	60.7	69.9	73.9	79.2
Non-durable consumer goods	58.6	56.7	64.3	71.6	82.4
Durable consumer goods	54.6	53.1	71.7	72.1	73.6
Intermediate goods	58.3	64.8	74.4	76.7	78.2
Capital goods	46.3	45.1	81.1	85.8	89.3

Sources: Central Bank of Ecuador, Encuesta de coyuntura de la industria manufacturera, No 6, December 1976, and PREALC, Situación y perspectivas del empleo en el Ecuador, 1976.

Table 43

ECUADOR: INDEX OF SQUARE METRES CONSTRUCTED

(1968 = 100)

Year	Total	Quito	Guayaquil	Cuenca
1968	100	100	100 <sub>a/</sub>	100 <sub>a/</sub>
1969	73	77	59	167
1970	74	90	45	157
1971	87	115	46	157
1972	81	96	54	173
1973	113	138	70	223
1974	146	184	88	235
1975	148	157	123	285

Source: Central Bank of Ecuador.

a/ In the base year the index of construction activity was relatively high in Guayaquil and relatively low in Cuenca.

/The growth



The growth of manufacturing and construction has encountered various difficulties, among others the rise in the prices of some inputs, mainly cement, which has had to be imported in increasing quantities since between 1970 and 1976 domestic production expanded by only 35%. It has also been necessary to import a number of other building materials and fixtures and fittings. In addition, the development of construction has been affected by the shortage of skilled manpower.

Available data on the financing and construction show that towards the middle of this decade approximately half the necessary resources were provided by the investors themselves, while the other half came from external sources (Ecuadorian Social Security Institute, mutual benefit societies, the Ecuadorian Housing Bank, etc.) (see table 44).

(d) Evolution of agriculture and agrarian reform

The relatively more favourable performance of agriculture in the last few years was reflected in the trend of the crop-farming and stock-raising product. Between the periods 1970-1972 and 1974-1976 the crop-farming sub-sector grew at an average annual rate of 4.3% and stock-raising by 6% per annum, giving an average rate of 5% for the two sub-sectors (see table 45).

This trend was influenced by a number of policy measures. Customs duties on imports of agricultural machinery and implements necessary for increasing production were eliminated and some inputs such as fertilizers and insecticides were subsidized. Concurrently, incentives were provided for the import of breeding cattle and better prices for a number of agricultural commodities. Storage, irrigation and drainage works have been carried out, although they are still obviously insufficient. The agricultural sector's share of credit has increased appreciably (see table 46 in connexion with the National Development Bank, and table 62 for total bank credit).

Public sector expenditure on crop farming and stock-raising rose sharply in 1974 but declined in 1975 and 1976. At the same time it was noted that the Ministry of Agriculture was not in a position, for want of the necessary elements and specialized officials, to spend all its budgetary allocations (see table 47).

Table 44

Ecuador: SOURCES OF CONSTRUCTION FINANCING

(Percentages)

	1967	1969	1971	1973	1975
Own resources	63	71	50	48	55
IESS a/	14	14	21	15	10
Mutual benefit societies	5	3	10	17	11
BEV b/	2	1	5	2	4
Other	16	11	14	18	20

Source: Municipality of Guayaquil, Urban Planning Department. Cited by FEDESARROLLO.

a/ Instituto Ecuatoriano de Seguridad Social (Ecuadorian Social Security Institute).

b/ Banco Ecuatoriano de la Vivienda (Ecuadorian Housing Bank).

Table 45

ECUADOR: EVOLUTION OF CROP FARMING AND STOCK-RAISING PRODUCT

	1970	1971	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
<u>Millions of sucres at 1970 prices</u>								
Crop farming sub-sector	5 459	5 575	5 429	5 606	6 074	6 545	6 868	6 680
Stock-raising sub-sector	2 830	2 975	3 242	3 435	3 661	3 735	4 034	4 248
<u>Total</u>	<u>8 289</u>	<u>8 550</u>	<u>8 671</u>	<u>9 039</u>	<u>9 735</u>	<u>10 280</u>	<u>10 902</u>	<u>10 928</u>
<u>Annual growth rates</u>								
Crop farming sub-sector	...	2.1	-2.6	3.3	8.3	7.8	4.9	-2.7
Stock-raising subsector	...	5.1	9.0	5.9	6.6	2.0	8.0	5.3
<u>Total</u>	...	<u>3.1</u>	<u>1.4</u>	<u>4.2</u>	<u>7.7</u>	<u>5.6</u>	<u>6.1</u>	-
<u>Annual rate of increase between averages for 1970-1972 and 1974-1976</u>								
	<u>Average 1970-1972</u>		<u>Average 1974-1976</u>					
Crop farming sub-sector	5 488		6 496		4.3			
Stock-raising sub-sector	3 015		3 810		6.0			
<u>Total</u>	<u>8 503</u>		<u>10 306</u>		<u>5.0</u>			

Source: Central Bank of Ecuador, Cuentas nacionales del Ecuador, 1977.

a/ Preliminary estimates.

Table 46  
ECUADOR: CREDIT EXTENDED TO AGRICULTURE BY THE NATIONAL DEVELOPMENT BANK

(Millions of sucres at 1970 prices)

Activity	1973	1974	1975	1976
Crops	432.2	825.2	919.9	975.8
Stock-raising and pastures	300.1	503.1	528.1	452.8
Agricultural machinery	54.8	142.2	107.9	88.5
Land improvement	29.9	58.6	27.4	49.3
Other activities	15.2	110.5	88.9	70.1
<u>Total</u>	<u>832.2</u>	<u>1 639.6</u>	<u>1 669.5</u>	<u>1 636.5</u>

Sources: National Development Bank and National Planning Board.

Table 47

ECUADOR: PUBLIC EXPENDITURE IN AGRICULTURAL SECTOR<sup>a/</sup>

(Millions of sucres)

	1972	1973	1974	1975	1976
1. Budget	623	650	2 108	2 226	2 290
2. Cash expenditure	335	579	1 643	1 474	1 493
3. (2) as a percentage of (1)	53.8	89.1	77.9	66.2	65.2
4. Cash expenditure (millions of sucres at 1970 prices)	274.8	421.7	964.8	767.7	711.3

Sources: National Planning Board.

a/ Expenditure of the Ministry of Agriculture, the Ministry of Natural Resources in connexion with agriculture, and contribution to semi-autonomous institutions.

The 1954 and 1974 agricultural censuses indicate that in the 20-year period between them the country's agricultural area expanded by nearly 850,000 hectares, which was basically concentrated in the coastal region. Furthermore, the 1974 census for the first time recorded about 26,000 farms in the Ecuadorian Oriente region with an area of 1,100,000 hectares. The average area of farms in the Oriente region is 41 hectares, which is more than the averages for the Sierra and coastal regions (8 and 19 hectares, respectively) (see table 48).

This increase in agricultural area was greater than the amount of land which the Ecuadorian Agrarian Reform and Land Settlement Institute (IERAC) has made available in the last 13 years, according to recent reports. Between 1964 and 1977 the Institute handed over 1,143,000 hectares to 28,786 families. A large part of this land was in the form of new settlements and a good many of them were established in the eastern region of Ecuador.

If the situation is examined from the standpoint of various items of agricultural production, it may be observed that there were absolute decreases in per capita production of barley, bananas, maize, potatoes, wheat and sugar cane. This occurred in spite of the fact that barley, bananas, maize and potatoes recorded significant or moderate increases in productivity per hectare. In the case of wheat and sugar cane, however, productivity also declined (see tables 49 and 50). In contrast, significant increases (greater than in the population) were recorded in the production of rice, African palm, cocoa, coffee and yuca, in all of which there were also increases in productivity per hectare.

The more satisfactory rate of growth of animal production was based, first, on the steady increase in the number of heads of cattle and pigs between 1954 and 1974 (see table 51). Secondly, and taking a shorter-term view, particularly rapid rates of expansion were achieved between 1970 and 1975 in the production of pork, poultry meat and eggs (see table 52).

The insufficient output of some commodities was reflected in the growing need to import foodstuffs, which increased from less than 20 million dollars in 1970-1972 to about 70 million in 1974-1976. These imports consisted mainly of wheat but also included oils, fats and dairy products (see table 53).

Table 48

ECUADOR: UNITS OF AGRICULTURAL PRODUCTION AND AVERAGE AREA

	1954			1974 <sup>a/</sup>		
	Number	Area (thousands of hectares)	Average area (hectares)	Number	Area (thousands of hectares)	Average area (hectares)
Sierra	259 569	3 020.4	11.6	372 738	3 099.3	8.3
Coastal region	84 665	2 979.3	35.2	201 910	3 750.4	18.6
<u>Total</u>	<u>344 234</u>	<u>5 999.7</u>	<u>17.4</u>	<u>574 648</u>	<u>6 849.7</u>	<u>11.9</u>

Source: 1954 and 1974 Agricultural Censuses.

a/ In addition, the 1974 Census enumerated 26 752 farms in the Oriente region covering 1 100 000 hectares (an average of 41.1 hectares) and 338 farms in Galápagos covering 18 700 hectares (an average of 55.3 hectares).

Table 49

## ECUADOR: AREA SOWN AND AGRICULTURAL PRODUCTION

(Area in thousands of hectares; production in thousands of tons)

		1968	1969	1970	Average 1968-1970	1971	1972	1973	1974	1975	1976	Average 1974-1976	Annual rate of growth between averages
<u>Products for domestic consumption</u>													
Barley	Area	135	126	134	132	120	119	93	61	72	72	68	-11.7
	Production	76	78	80	78	69	73	79	56	63	63	61	-4.2
Maize	Area	255	292	291	292	352	352	265	271	274	277	274	-1.1
	Production	129	211	257	235	250	257	246	256	273	275	268	2.2
Rice	Area	112	92	87	97	57	91	85	103	132	130	122	3.9
	Production	65	103	96	88	82	105	124	113	195	199	169	11.5
Wheat	Area	79	100	76	85	76	56	47	56	76	76	69	-3.5
	Production	83	94	81	86	68	51	45	55	65	65	62	-5.6
Yuca	Area	24	28	28	30	30	32	36	39	35	33	36	3.1
	Production	191	280	266	245	275	270	355	403	354	348	368	7.0
Potatoes	Area	49	41	47	46	53	38	44	39	39	48	42	-1.5
	Production	511	457	542	451	681	473	539	503	499	533	512	2.1
African Palm	Area	2	3	5	3	6	8	9	10	12	14	12	26.0
	Production	9	13	21	14	31	45	58	76	95	112	94	37.3
<u>Main export products</u>													
Bananas (total)	Area	205	205	190	200	157	133	121	122	110	107	113	-10.0
	Production	2 763	3 031	2 911	2 902	2 743	2 582	2 496	2 676	2 544	2 571	2 597	-1.9
Bananas (export)a/	Area	157	148	124	151	111	101	93	92	87	86	88	-9.4
	Production	2 068	2 260	2 098	2 142	2 093	2 112	2 020	2 186	2 161	2 417	2 255	0.9
Cocoa	Area	228	228	228	228	219	218	213	222	230	230	227	
	Production	82	48	54	61	71	68	63	91	75	65	77	4.0
Coffee	Area	191	214	215	207	215	222	228	232	231	256	240	2.5
	Production	60	44	72	59	62	71	75	70	76	87	78	4.8
Sugar cane	Area	122	-	-	122	-	88	89	101	115	85	100	-3.4
	Production	9 529	-	-	9 529	-	5 576	5 477	6 647	7 723	5 761	6 710	-6.0

Sources: Ministry of Agriculture; IBRD, Current Economic Position and Prospects of Ecuador, 1976, and Central Bank, Department of Economic Indicators.

a/ National Banana and Tropical Fruit Programme.

Table 50

ECUADOR: CHANGES IN AGRICULTURAL PRODUCTION AND PRODUCTIVITY  
BETWEEN 1968-1970 AND 1974-1976

Changes in production productivity per hectare	Increases in production per inhabitant	Decreases in production per inhabitant
Considerable increases	Rice African palm Cocoa	Barley Bananas
Moderate increases	Yuca Coffee	Maize Potatoes
Decreases		Wheat Sugar cane

Source: See preceding table.



Table 51  
ECUADOR: NUMBER OF LIVESTOCK  
(Thousands of units)

	1954	1974	Annual rate of variation 1954-1974	1977 <sup>a/</sup>
Cattle	1 216	2 465	3.6	2 540
Pigs	685	1 128	2.5	1 162
Sheep	1 351	1 096	-1.0	1 129
Goats	137	222	2.5	229

Sources: 1954 and 1974 agricultural Censuses and FEDESARROLLO estimates for 1977.

a/ Preliminary figures.

Table 52  
ECUADOR: EVOLUTION OF LIVESTOCK PRODUCTION

	Annual growth rate 1974-1975	Annual growth rate 1970-1975
Beef	3.8	4.4
Pork	7.5	7.7
Mutton	6.8	4.1
Poultry meat	8.2	15.2
Raw milk	2.3	2.1
Eggs	6.1	10.8

Source: Ministry of Agriculture.

/Table 53

Table 53

ECUADOR: VALUE OF IMPORTS OF SELECTED AGRICULTURAL COMMODITIES

(Thousands of dollars)

	1970	1971	1972	1973	1974	1975	1976
Wheat	6 663	3 918	9 924	16 494	35 474	33 518	39 033
Malt barley	3	3	-	-	-	20	1 879
Oats	776	840	825	930	1 837	2 901	2 118
Rice	267	-	-	8	9 068	1	-
Vegetable oils	3 338	6 479	6 920	11 333	4 647	12 311	17 561
Animal fats	3 516	2 879	1 760	732	7 960	7 418	1 859
Dairy products	954	968	1 554	2 042	1 530	3 045	4 746
Tobacco	602	2 499	1 386	218	11 931	6 093	-
<u>Total</u>	<u>16 119</u>	<u>17 586</u>	<u>22 369</u>	<u>31 757</u>	<u>72 447</u>	<u>65 307</u>	<u>67 196</u>

Source: Central Bank of Ecuador.

/In analysing

In analysing the factors that have adversely affected this sector's development it will be seen that there have been difficulties in providing the farmers with an effective extension service, in spite of the fact that the National Agricultural Research Institute has succeeded in identifying many of the technological problems affecting agriculture; but little progress has been made in the large-scale dissemination of the results obtained at the laboratory, farm and experimental station level.

The policy of fixed prices has in some cases been detrimental to the promotion of production, notwithstanding the fact that the adjustments made in 1974, particularly for wheat and rice, were in the nature of a stimulus. The control of the price of milk has contributed to the use of a large part of the production for cheese and other dairy products, thus creating a shortage in the supply of milk.

Although there are no periodic statistics for wholesale prices in Ecuador, table 54 compares the evolution of some important agricultural prices (for which information is available from 1970 to 1976) with the variations in the implicit deflator of the gross domestic product. No clear trend is observable from 1970 onwards since after fairly small increases up to 1973 the price of rice showed a recovery in 1974 and 1975 but fell again in 1976; the real price of barley improved in 1972 and 1976; soft maize, whose real price dropped in 1971 and 1972, rose from 1973 onwards; yuca had a relatively favourable price only in 1975; cotton and bananas appear to have been in a comparatively healthier position in 1972 and 1976; and beef rose less than domestic prices throughout the period.

From a different standpoint, the increase in costs seems to have been greater than the rise in prices, as can be seen from table 55 in which the variations in the costs and prices of wheat, barley, maize and groundnuts are compared.

The marketing system has various defects and a lack of storage capacity. It has been estimated that the total shortage of storage space is 250,000 metric tons and that about half of this figure is required by the National Agricultural Products Storage and Marketing Enterprise (ENAC). There are also deficiencies in local roads which prevent the production of many farms from reaching the centres of consumption. This affects the marketing of the production of small farmers and the more perishable agricultural commodities.

Table 54

ECUADOR: INDEX OF PRODUCERS' PRICES OF SELECTED AGRICULTURAL COMMODITIES  
AND OF DEFLATOR OF THE GROSS DOMESTIC PRODUCT

(1970 = 100)

	1970	1971	1972	1973	1974	1975	1976
Deflator of gross domestic product	100	113	122	139	174	195	214
Rice	100	104	115	133	185	211	205
Barley	100	...	133	...	...	...	237
Soft maize	100	99	111	196	233	280	357
Yuca	100	90	109	129	174	227	188
Cotton	100	...	163	...	...	282	...
Bananas	100	...	129	...	...	...	262
Beef	100	...	120	...	145	182	193

Source: Ministry of Agriculture.

Table 55

ECUADOR: VARIATIONS IN COSTS AND WHOLESALE PRICES OF SELECTED  
AGRICULTURAL COMMODITIES BETWEEN 1973 AND 1975

(Percentages)

	Costs	Prices
Wheat	74	71
Barley	154	39
Soft maize	105	30
Hard maize	100	41
Groundnuts	68	121

Sources: Ministry of Agriculture and Central Bank of Ecuador.

One of the central features of the agricultural sector is agrarian reform, the basic law of which was modified in 1973. The work of colonization and distribution of land carried out by IERAC even since it was established has already been mentioned. The basic problem of land tenure has not changed, however. In the agricultural survey carried out in 1968 it was found that 85% of the total number of agricultural holdings, which were under 10 hectares, accounted for less than 17% of the country's total agricultural area. In contrast, 1.5% of the total, of 100 hectares and over, covered 47% of the agricultural land. This uneven distribution has not been corrected; therefore, it quite often happens that the large properties have too much land to be able to work it efficiently, while the small holdings have too little land and frequently of too poor a quality to ensure the subsistence of their numerous owners.

The Development Plan provided that agrarian reform would cover 15,000 new families a year with an agricultural area of 172,600 hectares. In 1973-1975, 2,600 new families were incorporated, with an area of 27,000 hectares in terms of annual averages. More than half the agrarian reform activities were devoted to eliminating some precarious forms of land tenure in the Guayas river basin.

Furthermore, in the period 1973-1975, IERAC used 25% of its total available budgetary resources and only 10% of its capital budget.

There is no doubt whatsoever that the majority of the marginal population and the greatest poverty are found in the rural area and that this is causing a strong migratory flow to the cities. As a result of this migration, combined with Ecuador's high rate of population growth, a large sector of the population fails to find employment in productive activities and contributes to the existence of large equally marginal sectors in the urban centres.

The carrying out of a more far-reaching agrarian reform programme has encountered strong political and social opposition. Moreover, some doubts have arisen, as in other countries, regarding the effects such a reform might have on investment in agriculture and on production, which could also be affected by the limitations of entrepreneurial capacity of those replacing the present owners in their activities.

(e) Electrification and transport

Between 1972 and 1977 Ecuador's electricity generating capacity increased by 86%. Nevertheless, the per capita installed capacity is relatively low in comparison with other countries, in spite of the existence of the expansion of hydroelectric energy. The Ecuadorian Electrification Institute (INECEL) is working on the establishment of a national interconnected system.

In the field of hydroelectric energy, the Pisayambo power station which started operating at the end of 1977 has a capacity of 70,000 KW and supplies energy to the Sierra provinces from Carchi in the north to the provinces of Chimborazo and Bolívar. The cost of the project was approximately 80 million dollars. Also in process of execution is the Paute plant in the Azuay province which in its first stage will have a capacity of 500,000 KW and whose estimated cost is 340 million dollars. There are further projects for power plants in Toachi and Guayllabamba which are still under study.

Some thermoelectric plants have also been established, such as the plant in Guangopolo which has been in operation since April 1977 and has a generating capacity of 31,200 KW, and another in Guayaquil with a generating capacity of 29,000 KW. Work is expected to start shortly on a further thermoelectric plant with a capacity of 73,000 KW in the Estero del Salado region.

Among the government projects is the extension of electrification to rural areas, which at present have an electricity connexion system benefiting only 8% of the rural population.

The development of transport infrastructure is a matter of high priority for Ecuador in view of its geographical formation which hampers the economic integration of its various regions.

Between 1970 and 1976 the extension of highways doubled and the motor-vehicle inventory quadrupled, thus reaching 150,000 vehicles. Many of the highways were built before the oil boom, so that the economic growth of the past few years has been limited by the deficiencies in the means of communication, mainly due to the poor state of many roads.

/(f) Social

(f) Social development and income distribution

In the statistics available for the last few years on social improvement some indicators show favourable results, though not on a par with the rapid growth of the country's economy.

There has been a slow and gradual improvement in the mortality and birth rates. Thus, for example, the supply of calories in foodstuffs has increased, although in 1974 it still fell short of international recommendations or requirements by an average of about 14%. In view of the great inequality in the distribution of income, this deficit is concentrated particularly in the marginal sectors. Moreover, between 1968 and 1974 the position with respect to protein consumption deteriorated. This dropped from 66% of the recommendable requirements in 1968 to only 60% in 1974.

The relationship between the number of doctors and the population has improved, due to the wide coverage attained by university studies and the system of free admission to that level of national education. In 1974, 128 doctors graduated; the number rose to 160 in 1975, 222 in 1976 and 343 in 1977, while 530 doctors are expected to graduate in 1978. There has also been a considerable increase in government investment in the health sector for the construction of hospitals and health centres; difficulties have nevertheless been encountered in providing them with the technical staff necessary to operate them efficiently. Moreover, some doubts have arisen as to whether it is preferable to build fairly large hospitals in urban centres or to establish health centres that would provide basic medical services for the rural population, which is the most neglected sector.

In recent years, too, the benefits deriving from piped water, sewerage and electrification services have also been extended and housing conditions have improved with the erection of large buildings in the main urban centres. Progress in these fields has been relatively limited, however, and they still present significant deficiencies.

There has also been some progress in the field of literacy, since between 1962 and 1974 the literacy coefficient rose from 70 to 75%; the urban coefficient increased slightly - from 89 to 90% - while the rural coefficient rose from 58 to 63%. To qualify these figures, however, it

/should be

should be borne in mind that a large number of students of school age spend only very brief periods of one or two years at school, especially in the rural sector. Furthermore, in many cases education leaves a good deal to be desired owing to the shortage of teachers. Considerable progress has been made in the construction of educational establishments, however.

During the period concerned there has been an evident disproportion between public spending on education at the higher and primary levels. In the period 1971-1975 real expenditure on education practically doubled, with particularly large increases in 1972 and 1973 (approximately 30% in each year). At the same time the amount spent on primary education dropped from 47% of total expenditure in 1971 to 35% in 1974-1975, while the share assigned to higher education rose from 10% to about 24%. The proportion spent on secondary education was more stable (see table 56).

The emphasis placed on the growth of secondary and higher education is clear from a comparison of the variations in the number of students and teachers between the periods 1965-1966 and 1974-1975. Taking the number of primary students as a base of 100, the proportion of secondary students, which represented 15% of the primary students in the first period, rose to 27% in the second; for university students the relation rose from 2% to 9%. The same occurred in the case of teachers. While in the period 1965-1966 secondary teachers represented 43% of the primary teachers, in 1974-1975 the proportion was 66%; and the proportion of university teachers rose from 8% to 15% over the same period (see table 57).

The marked expansion of secondary and higher education at the expense of primary education has given rise to social problems, as the benefits of education have not been especially directed towards the most needy strata. At the same time, the situation may lead in the future to some deficiencies in the quality of higher education and difficulties in effectively absorbing those graduating from some types of professional training.



Table 56

ECUADOR: PUBLIC EXPENDITURE ON EDUCATION<sup>a/</sup>

	1971	1972	1973	1974	1975
<u>Total</u> (millions of sucres at current prices)	<u>1 188</u>	<u>1 657</u>	<u>2 489</u>	<u>3 081</u>	<u>3 972</u>
Percentage on primary education <u>b/</u>	47.0	42.5	39.0	34.6	35.0
Percentage on secondary education	43.0	44.9	39.5	40.2	41.4
Percentage on higher education	10.0	12.6	21.5	25.2	23.6
<u>Total</u> (millions of sucres at 1970 prices)	<u>1 054</u>	<u>1 359</u>	<u>1 813</u>	<u>1 809</u>	<u>2 068</u>
Real percentage increase)	-	28.9	33.4	-	14.3

Sources: Budget Office and World Bank, Current Economic Position and Prospects of Ecuador, 1976.

a/ Including the Budget, the expenditure of FONADE and FONAPAR, and the specific allocations of petroleum income.

b/ Excluding the construction of schools.

Table 57

ECUADOR: EVOLUTION OF THE EDUCATIONAL STRUCTURE

	1965- 1966	1974- 1975
Population aged 5-14 years (thousands of persons)	1 397	1 883
Students at primary school (thousands)	800	1 234
Primary students as a percentage of the school-age population	57.3	65.6
<u>Number of students per teacher</u>		
Primary schools	37.4	39.7
Secondary schools	12.7	16.2
Universities	8.8	24.0
<u>Comparative structure of education</u>		
<u>Students (number at primary school = 100)</u>		
Secondary	14.6	27.1
University	1.9	9.3
<u>Teachers (number in primary schools = 100)</u>		
Secondary	43.1	66.5
University	8.2	15.3

Sources: Ministry of Education and World Bank, Current Economic Position and Prospects of Ecuador, 1976.

/As regards

As regards the distribution of income, a slight deterioration in the share of the poorest 20% of the population is noted between 1968 and 1975. Likewise, a smaller share is recorded for the 10% receiving the highest incomes (from 40% of total income in 1968 it dropped to 34% in 1975). However, the income of both these groups rose slightly in real absolute terms. The share of the upper middle 15% remained practically unchanged. In contrast, the 55% classified in the lower middle and middle groups raised their share from 33 to 40%. The top half per cent of the population also showed a slight relative improvement (see table 12).

The share of the lowest 20% in total income is close to the average for Latin America, while the highest 10% receives a lower percentage than the average for the region.

The increase in the share of the middle and lower middle sectors can be explained by the fact that the rapid economic growth coincided with a vigorous expansion of the public sector and of mining, manufacturing, commerce and construction, so that the situation of income recipients engaged in these activities improved significantly. Thus a middle class which was virtually non-existent a couple of decades ago gradually developed and strengthened.

In spite of this, according to estimates of the National Economic Planning and Co-ordination Board, the marginal state of the population was only slightly reduced. The estimate for 1975 indicates that of the total population the marginal sectors numbered some 750,000 in the rural area and some 220,000 in the urban area. In the Development Plan it was proposed to reduce from 49 to 34% the population that was excluded from the economy, defined as that earning less than the minimum wage. In 1977, however, this was still estimated at 47% of the total population (26% for the urban and 64% for the rural population). In this respect, progress in incorporating marginal workers in essentially productive activities has been manifestly slow. In addition, table 58 presents an estimate for 1974 of the persons employed by income level. About 52% were earning less than 5,000 sucres a year.

Table 58

ECUADOR: PERSONS EMPLOYED BY INCOME LEVEL, 1974<sup>a/</sup>

Annual income level (sucres)	Thousands of persons <sup>b/</sup>	Percentage of total
Less than 2 000	245.7	13.0
2 000 - 5 000	727.6	38.5
5 000 - 10 000	302.4	16.0
10 000 - 15 000	151.2	8.0
15 000 - 30 000	283.5	15.0
30 000 - 50 000	102.1	5.4
50 000 - 100 000	54.8	2.9
Over 100 000	22.7	1.2
<u>Total</u>	<u>1 890.0</u>	<u>100.0</u>

Sources: National Planning Board and World Bank, Current Economic Position and Prospects of Ecuador, 1976

a/ Estimates based on two surveys carried out in 1965 and 1968, and on a sample inquiry conducted in Quito and Guayaquil in 1973.

b/ Heads of households.

#### 4. Expansion of the banking and financing system

The growth of the economy induced by petroleum exports has led, among other results, to a considerable expansion of the financing system. Between 1968 and 1977 the credit granted by the Central Bank, commercial banks and the National Development Bank practically doubled in real terms. At the same time a number of intermediary institutions emerged, while other institutions which existed before the petroleum boom were strengthened.

Monetary policy succeeded in channelling official and private credit towards the financing of certain economic sectors, especially agricultural and export activities.

In spite of the vigorous expansion of the capital market, there are still some obstacles hindering its continued development. Thus, the securities negotiated are issued primarily by the State or official institutions; the only private financial instrument of importance is the mortgage bond.

##### (a) Financial institutions

The banking system is headed by the Central Bank of Ecuador, established in 1927, which is the monetary authority and the institution regulating monetary, credit and exchange policy. There is also the National Development Bank which is a State financing institution mainly covering the credit needs of agriculture and small-scale and artisan-type industry. The National Development Bank has branches and agencies practically throughout the country, even in those regions where banking activity is not profitable for private institutions. Also operating in Ecuador are 21 national and four foreign private banks (First National City Bank, Bank of America, Bank of London and United Netherlands Bank). All these institutions have benefited from the rapid growth of the country's economy, particularly that of its external sector, since financing exports and imports and securing external credit by granting guarantees represent the most lucrative form of banking business.

Among the rest of the financial intermediation institutions may be mentioned the Values Commission-National Financing Corporation, a State institution whose main purpose is to extend credit to industry. The total domestic credit granted by the Corporation amounted to 3,800 million sucres (152 million dollars) in May 1977. The Corporation is financed by the issue of medium- and long-term bonds, its official capital and reserves, and also by credit obtained from development institutions abroad.

/The Ecuadorian

The Ecuadorian Housing Bank, also a public institution, was established to finance the construction of housing for the middle-income sectors. The total credit granted by this Bank amounted to 3,550 million sucres (142 million dollars) in May 1977, practically half of which was financed by its official capital and reserves and the rest by the issue of bonds and savings and time deposits made by applicants for the purchase of dwellings.

The Co-operative Bank is another official institution whose purpose is to stimulate, promote and finance the development of Ecuador's co-operative movement.

The most important of the private financial institutions are the mutual benefit societies which provide financing for the construction of dwellings. The total credit they had granted by May 1977 amounted to 2,700 million sucres (108 million dollars) and their main source of funds was the savings and time deposits obtained from possible applicants for mortgage loans. Another important institution in recent years is the Ecuadorian Financing Corporation (COFIEC), which grants credit mainly to industry. The total credit extended by COFIEC by mid-1977 was 1 billion sucres (40 million dollars) and their financing, apart from that provided by their capital and reserves, was obtained through the issue of bonds and from external credit.

Recently, other private financing companies have been organized, but they have not yet acquired much importance; among them may be mentioned the Ecuatoriana Financiera S.A. (ECUFINSA), Financiera Nacional S.A. (FINANZA) and Financiera de Guayaquil.

In the distribution of financial savings among banks and other intermediation institutions, it may be observed that while in 1972 the non-banking financial intermediation institutions obtained 5.5% of domestic financial saving, the proportion rose steadily in the next few years and stood at 12% by mid-1977 (see table 59).

Table 59

ECUADOR: FINANCIAL SAVING BY TYPE OF INSTITUTION AND KIND OF SECURITY

(Millions of sucres)

	1972	Percentage	1974	Percentage	1976	Percentage	May	
							1977	Percentage
Banking system <u>a/</u>	15 250	94.5	24 195	91.5	40 910	88.5	43 426	87.7
Other financial intermediaries	889	5.5	2 257	8.5	5 314	11.5	6 080	12.3
<u>Total</u>	<u>16 139</u>	<u>100.0</u>	<u>26 452</u>	<u>100.0</u>	<u>46 224</u>	<u>100.0</u>	<u>49 506</u>	<u>100.0</u>
Money	7 259	45.0	13 387	50.6	21 521	46.6	23 063	46.6
Quasi-money <u>b/</u>	3 109	19.3	5 681	21.5	8 646	18.7	9 632	19.5
Import deposits	1 149	7.1	8	-	2 451	5.3	2 709	5.5
Mortgage bonds	2 104	13.0	2 940	11.1	5 413	11.7	6 034	12.2
Other <u>c/</u>	2 518	15.6	4 436	16.8	8 193	17.7	8 071	16.2
<u>Total</u>	<u>16 139</u>	<u>100.0</u>	<u>26 452</u>	<u>100.0</u>	<u>46 224</u>	<u>100.0</u>	<u>49 509</u>	<u>100.0</u>

Sources: Central Bank, Office of Monetary Studies, and International Monetary Fund, Ecuador: Recent Economic Developments, 1977.

a/ Central Bank, National Development Bank and commercial banks.

b/ Savings and time deposits.

c/ Including monetary stabilization bonds, other liabilities in sucres, and foreign currency and capital and reserves.

As regards

As regards the securities in which financial saving was distributed, it may be observed that during the period concerned the proportion representing money has remained practically stable between 45 and 47%. It was only in 1974 that the liquidation of prior import deposits determined an appreciable increase in financial savings in the form of money and also a small increment in the form of quasi-money. Mortgage bonds have experienced fairly moderate fluctuations.

(b) Credit to the private sector

Between 1968-1970 and 1974-1976 there was a considerable increase (from 21.5% to 33% of the total) in the National Development Bank's share in the financing of the private sector by the banking system. This increase was offset by a relatively sharp reduction in the share of commercial banks as a whole, and also by a contraction, although somewhat more moderate, in the credit granted to the private sector by the Central Bank of Ecuador (see table 60). The domestic credit operations of commercial banks are basically in favour of the private sector. The credit they extend to the public sector is limited and is mainly channelled to institutions which are not part of the central government.

The National Development Bank came to depend increasingly for its financing on the Central Bank and public sector deposits. These sources of financing represented 30 to 45% between 1968 and 1972, the proportion rising to 65% in 1976 and 63% in May 1977 (see table 61). The Bank's capital and reserves, for their part, were substantially increased in 1974 and 1975. International development agencies have contributed more and more towards financing the National Development Bank, but the increase has been fairly moderate and by 1977 that source covered less than 5% of the credit which the Bank granted to the private sector. Recently, the Bank has also managed to obtain medium-term credit from foreign banking consortiums.

As regards the financing of commercial banks, from 1972 onwards there was a considerable improvement in their position abroad, which was due to the extraordinary expansion of foreign trade and external financing.



Table 60

ECUADOR: INSTITUTIONAL COMPOSITION OF BANK CREDIT TO THE PRIVATE SECTOR

	Central Bank	Commercial banks	National Development Bank	Total
<u>Millions of sucres</u>				
1968	712	3 894	1 215	5 821
1969	825	4 099	1 424	6 388
1970	1 094	4 878	1 555	7 527
1971	1 154	5 418	1 749	8 321
1972	1 056	6 260	1 991	9 307
1973	1 057	7 616	2 785	11 458
1974	1 406	9 827	5 216	16 449
1975	2 178	12 365	7 656	22 199
1976	3 265	16 272	9 482	29 019
1977 (May)	3 244	18 080	10 060	31 384
<u>Percentages</u>				
1968	12.2	66.9	20.9	100.0
1969	12.9	64.2	22.9	100.0
1970	14.5	64.8	20.7	100.0
1971	13.9	65.1	21.0	100.0
1972	11.3	67.3	21.4	100.0
1973	9.2	66.5	24.3	100.0
1974	8.6	59.7	31.7	100.0
1975	9.8	55.7	34.5	100.0
1976	11.3	56.1	32.6	100.1
1977 (May)	10.3	57.6	32.1	100.1
<u>Averages</u>				
1968-1970	13.2	65.3	21.5	
1972	11.3	67.3	21.4	
1974-1976	9.9	57.2	32.9	
1977	10.3	57.6	32.1	

Source: Central Bank of Ecuador, Office of Monetary Studies.

Table 61

ECUADOR: PROPORTION OF NATIONAL DEVELOPMENT BANK CREDIT TO THE PRIVATE  
SECTOR FINANCED WITH CENTRAL BANK RESOURCES AND PUBLIC  
SECTOR DEPOSITS

(Percentages)

1968	30.4		1973	47.6
1969	45.4		1974	56.0
1970	39.5		1975	60.5
1971	42.8		1976	65.1
1972	44.5	(May)	1977	62.9

Source: Central Bank of Ecuador.

/This period

This period marked a reorientation of bank credit by sectors of economic activity. Agriculture, which in 1965 obtained less than 14% of total bank credit and in 1970 less than 15%, obtained 20% in the years 1975-1976 (see table 62). This growth was partly due to the strengthening of the system of Financial Funds established in April 1973.

The share of manufacturing also improved, although only slightly: from 19% in 1965-1970 it rose to over 20% in 1975-1976. In contrast, the share of commerce, which was over 60% in 1965, fell to 46% in 1975-1976.

The purpose of the Financial Funds has been to channel through the banking system resources coming from external loans, and at the same time to oblige the banks to devote part of their total portfolios to placing this type of credit. The Central Bank, for its part, assigns rediscount quotas to various funds the object of which is to promote agriculture, livestock production or manufacturing.

National and foreign banks must earmark 20 and 25%, respectively, of the portfolio of their commercial section for loans under this system. Any banks failing to comply with this obligation must buy development bonds from the Central Bank, paying an annual interest rate of 4%. These bonds may be repurchased by the issuing institution when the obligation concerned has been fulfilled.

The Central Bank rediscounts the credit granted through Financial Funds, in proportions ranging from 80 to 100% according to the kind of operations refinanced. For purposes of this rediscount operation the Central Bank uses external loans granted by the International Bank for Reconstruction and Development and the International Development Agency, and its own resources as well.

The Financial Funds credit is extended to the user at an interest rate of 9% per annum and the Central Bank charges 3% for the rediscount operation, so that a margin of 6% remains for the intermediary bank. The interest is charged at the maturity date and is not liable to the fiscal tax of 1%, so that this represents a considerable reduction compared with the cost of ordinary bank credit which is about 15% per annum.

Table 62

ECUADOR: DISTRIBUTION OF BANK CREDIT BY SECTOR OF ECONOMIC ACTIVITY

(Percentages)

	1965	1970	1973	1974	1975	1976
Agriculture	13.6	15.1	16.0	19.0	20.9	19.6
Manufacturing	18.8	19.0	17.3	17.5	20.1	20.4
Commerce	60.3	54.8	56.4	48.0	45.4	46.5
Other sectors	7.3	11.1	10.3	15.5	13.6	13.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank of Ecuador, Technical Office, Ecuador en cifras, 1977.

/At the

At the end of 1976 the total Financial Funds placed amounted to about 4,800 million sucres (190 million dollars), more than half of which had been rediscounted by the Central Bank. Of these rediscount operations, the Bank had financed 308 million sucres with external loans (see table 63).

In the short time that this mechanism has been in operation, the general opinion of it seems to be favourable. There have been some criticisms, however. In the first place, the slowness of the procedures, which is explained by the novelty of the system and the difficulty of putting it into effect. Another criticism has been the lack of adequate control and of technical assistance for the farmers receiving this credit, which in many cases makes it difficult to know whether the funds have actually been used for the agricultural development and promotion objectives pursued. Generally speaking, however, this defect is inherent in nearly all the systems of selective credit that have been put into practice in the developing countries. Taking an overall view, therefore, it would be difficult to deny that the credit granted through Financial Funds has meant an increased share of total credit for the agricultural sector, thereby contributing to an increase in this sector's production in the last three years.

(c) The stock market

The stock market has expanded considerably, as can be seen from table 64. Even expressed in real terms, the increase in operations between 1972 and 1976 was 280%. There are two stock markets in Ecuador, one operating in Quito and the other in Guayaquil. The predominant operations are transactions in bonds issued by the State or the Central Bank. The only private financing of some significance is in the form of mortgage bonds issued by banks. Shares have constituted a negligible part of total market operations, notwithstanding the increase experienced in the last few years. Despite the recent establishment of many stock companies, these continue to belong, as a rule, to only a few shareholders and do not provide for many share operations.

Table 63

ECUADOR: CREDIT GRANTED BY THE BANKING SYSTEM THROUGH FINANCING FUNDS

(Millions of sucres)

	1972	1973	1974	1975	1976
Central Bank rediscount operation	133	276	1 296	2 097	2 486
Domestic resources	-	131	1 147	1 777	2 178
External resources	133	145	149	320	308
Resources of financing institutions	-	48	955	1 471	2 295
National banks	-	34	663	1 071	1 858
Foreign banks	-	14	292	400	437
<u>Total</u>	<u>133</u>	<u>324</u>	<u>2 251</u>	<u>3 568</u>	<u>4 781</u>

Source: Central Bank, Annual Reports, 1975 and 1976.

Table 64

ECUADOR: STOCK MARKET OPERATIONS

(Millions of sucres)

	1972	1973	1974	1975	1976
Total	<u>487</u>	<u>1 681</u>	<u>2 055</u>	<u>2 474</u>	<u>3 159</u>
State bonds	284	639	899	862	967
CAT a/	24	82	173	258	436
Monetary stabilization bonds (Central Bank)	2	801	689	975	1 140
Mortgage bonds	77	91	217	239	430
Shares	10	11	11	24	24
Other	90	57	66	116	162

Source: Central Bank, Annual Reports, 1973, 1974, 1975 and 1976.

a/ Tax rebate certificate (certificado de abono tributario) which some exporters received and is used to pay certain taxes.

/Many factors

Many factors account for the difficulties experienced by the stock market as a means of channelling savings towards the financing of productive investment. In the first place, mention may be made of the negative or barely positive real returns on securities, owing to the rate of inflation of the last few years. Tax provisions and the relatively high brokers' commissions are other factors that have hindered the expansion of the market. Lastly, there has been little access to it by the saving public at large, and at the same time the nature of the securities issued do not fully satisfy investors.

### III. MALADJUSTMENTS AND TENSIONS IN GROWTH: THE PROCESS OF INFLATION

The petroleum era brought with it an accentuation of inflationary pressures to a degree which had not been experienced in Ecuador for several decades. It is true that a few years before the petroleum period, price increases had begun to be more pronounced, and equally true that it is difficult to distinguish national inflation from that which affected the entire world at the end of 1972. The sudden materialization of an unaccustomed mass of resources in the hands of the government however, and the consequent growth of public expenditure produced a rapid increase in the means of payment which naturally had an impact on prices, because of the slow response of both domestic and imported supply. If the problem is considered from the point of view of the structure of the economy, it may be maintained that the rapid transition from an economy in moderate expansion to an economy characterized by vigorous growth, and particularly the difference in intensity in the growth of the different sectors, could not fail to produce tensions. An expression of this was the more rapid increase in prices, especially since the supply of food appears to have been inadequate to satisfy the demand from much higher and increasing earnings.

The authorities have used various instruments to moderate this process - production stimuli and supply of consumer goods, liberalization of imports, wages policy, control of key prices, and constraints on demand using the classical monetary policy measures. The result of these was not insignificant, since generally speaking, as from 1975, prices have increased more moderately and their rate of increase has tended to decline.

Some problems stemming from inflation, however, seem to be more permanent, especially those connected with distortions in the rate of interest, the exchange rate and some key prices. Similarly, some redistribution has taken place as a result of inadequacies and/or lags in the readjustment of nominal wages.



1. The evolution of prices, imported inflation and the pressures of costs

(a) Increases in the price index and its components

The 1950s, when the banana boom began, were characterized by notable stability in prices with an average annual increase of 1%. It is very possible, however, that during the previous period, between 1920 and 1950, when the country underwent an extraordinary crisis in cocoa, the main export product at that time, inflationary pressures were considerably greater, at least to judge by the dollar exchange rate which rose from 2.5 sucres in 1926 to 15 sucres in 1951 (see table 65). Naturally, given the existence at that time of far broader sectors of the economy which were practically outside the market, inflation must have had fewer effects than in recent times.

Table 65

ECUADOR: US DOLLAR EXCHANGE RATE  
(In sucres)

From 1920 to 1926	2.25
From 1926 to 1934	5.00
From 1934 to 1949	10.00
From 1949 to 1951	13.50
From 1951 to 1961	15.00
From 1961 to 1970	18.00
From 1970 (August) to mid-1978	25.00

Sources: Oswaldo Hurtado, El poder político en el Ecuador, Ediciones Universidad Católica, Quito, 1977, p. 90, and International Monetary Fund, International Financial Statistics, various issues.

/Between 1960

Between 1960 and 1968 the rate of inflation increased at an annual rate of 3.5%, similar to what was considered normal in the developed countries at that time. In 1969-1971, price increases became more rapid, especially in 1971 when the consumer price index recorded an increase of more than 9%. This movement was observed to be more intensive in the implicit deflator of the gross domestic product (see table 66, and at the end reference table 83).

In 1972 there was some slackening in inflationary pressures, but they settled down at a rate of approximately 8%. The beginning of the petroleum period coincided with a new burst of inflation, with the result that in 1974 prices were increasing at a rate of 23%. In 1975 inflationary pressure dropped and the same thing happened in 1976. The decrease was 14% in 1975 and 10% in 1976, while the reductions in the implicit deflator of the gross domestic product were even more accentuated, since in 1976 this indicator increased by less than 10%.

Despite this, when periods of less than 12 months are considered, it is evident that the slackening in the rate of inflation which began in 1975 continued particularly intensively up to March 1976, with the result that during the year previous to this date the increase in consumer prices was slightly under 7%. As from this date and up to the last quarter of 1976 there was some resurgence of inflation, and specifically in the last quarter of 1976 the annual rate exceeded 13%. During 1977, price tensions dropped off slightly, and remained under an annual rate of 13%.

In the movements of the consumer price index between 1970-1971 and 1975, the subgroup of food and beverages underwent considerably larger increases than the other items (see table 67).

The relative price of foodstuffs increased by more than 30% between these two dates, while in 1976 and 1977 the real improvement of the previous years remained approximately the same.

Table 66  
ECUADOR: INDICATORS OF VARIATIONS IN PRICES

(1970 = 100)

	1968a/	1969b/	1970	1971	1972	1973	1974	1975	1976	1977c/
Consumer prices d/	90.0	94.7	100.0	109.4	117.9	132.4	163.2	186.9	206.6	232.1
Annual rate of increase	3.0	5.2	5.6	9.4	7.8	12.3	23.3	14.5	10.5	12.6
Food and beverages	89.6	96.6	100.0	107.8	119.0	139.8	184.4	215.1	236.4	262.0
Annual rate of increase	3.8	7.8	3.5	7.8	10.4	17.5	31.9	16.6	9.9	11.2
Other items of the index (housing, clothing and miscellaneous)	90.5	93.0	100.0	111.0	117.0	125.9	144.4	161.6	179.8	202.0
Annual rate of increase	1.8	2.8	7.5	11.0	5.4	7.6	14.7	11.9	11.3	12.3
Deflator of the gross domestic product	87.1	91.5	100.0	111.8	122.3	139.1	174.1	194.8	213.5	237.1
Annual rate of increase	2.7	5.1	9.3	11.8	9.4	13.7	25.2	11.9	9.6	11.0

Sources: National Institute of Statistics and Censuses and Central Bank, Department of Economic Indicators and National Accounts.

a/ Quito and Guayaquil.

b/ Quito, Guayaquil and Cuenca.

c/ Average January-September over the average of the same period in 1976.

d/ Consumption of low and middle income families in Quito, Guayaquil, Cuenca and Portoviejo.

Table 67

ECUADOR: EVOLUTION OF FOOD AND OTHER CONSUMER PRICES

(1970 = 100)

	Consumer price indexes		Index of the relative price of food
	Food and beverages (A)	Other items (B)	(A) + (B) x 100
1968	90	90	100
1969	97	93	104
1970	100	100	100
1971	108	111	97
1972	119	117	102
1973	140	126	111
1974	184	144	128
1975	215	162	133
1976	236	180	131
1977 a/	262	202	130

Source: National Institute of Statistics and Censuses.

a/ Average January-September over the average of the same period in 1976.

(b) The impact of external inflation 18/

In Ecuador there has been a clear parallel between the direction of the variations in domestic prices and those of imports, and nearly every year in the magnitude of the movements too (see table 68). In 1971 the domestic price index rose more sharply than that of imported articles, since the increase in the rate of inflation between 1970 and 1971 may be basically attributed to the devaluation of the sucre which took place in August 1970; in 1972, however, the variations in the two indexes became closer. In 1973 and 1974, when both world inflation and that of Ecuador built up, the increases were greater for imported prices than for domestic

18/ For a general discussion of the topic see CEPAL, Dos estudios sobre inflación, Cuadernos de la CEPAL, N° 9, Santiago, Chile, 1975, and CEPAL, Economic Survey of Latin America, 1974.

Table 68  
ECUADOR: VARIATIONS IN CONSUMER PRICES AND IN IMPORT AND EXPORT PRICES  
(Percentages)

	1971	1972	1973	1974	1975	1976	1977
Consumer prices	9.4	7.8	12.3	23.5	14.5	10.5	12.6 <sup>a/</sup>
Import prices	6.1	6.7	15.7	27.5	13.5	4.2	6.1 <sup>b/</sup>
Export prices (excluding petroleum)	-	3.3	22.5	26.0	-2.5	38.6	39.1 <sup>c/</sup>

Sources: National Institute of Statistics and Censuses and Central Bank, Department of Economic Indicators.

a/ January-September compared with same period of the previous year.

b/ January-July compared with the same period of the previous year.

c/ January-June compared with the same period of the previous year.

/prices. In

prices. In 1975 the variations in external and domestic prices were similar, but in 1976 and 1977 larger increases were recorded in the domestic price index.<sup>19/</sup>

The very close parallel mentioned earlier between the variations in the prices of food in the consumer price index of Ecuador and the variations in food and beverages in the world market was not observed.<sup>20/</sup> In 1971, for example, which was a year in which the index of world prices in food and drinks dropped, an increase, although only a moderate one, was recorded in Ecuador. The international increases of 1972 and 1973 were somewhat more substantial than those observed at the domestic level. Only in 1974 were there increases of more or less the same intensity, since in 1975 and 1976 external increases were greater than those of the domestic market.

A recent study <sup>21/</sup> by economists from the International Monetary Fund and the World Bank has endeavoured to measure what proportion of Ecuador's inflation can be attributed to external factors. According to this study, 20% was the result of external factors in 1972, 34% in 1973 and somewhat over 40% in 1974. These coefficients dropped to 21% in 1975 and 20% in 1976. In the methodology followed, the variations in the import price index and in the exchange rate were taken into account, while the effects which the changes in the export prices may have on domestic prices were omitted for

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<sup>19/</sup> A simple regression in which y represents the rate of increase of domestic prices and x the rate of increase of imported prices gives the equation:  $y = 6.7 + 0.55X$ , with a correlation coefficient of  $r = 0.90$ . This coefficient is statistically significant and greater than 0, but if the true coefficient were 0.9 at a reliability level of 5%, it could be found between 0.45 and 0.98, in view of the small size of the sample. Similar results emerge from the correlations made by International Monetary Fund experts to explain the variation in domestic prices by the variation percentages of public expenditure. The conclusion which may be drawn is that both elements have played an important role in inflation, but statistical evidence is not sufficient to explain it completely.

<sup>20/</sup> For the fluctuations in world prices of food and beverages see BIS, Rapport Annuel, Basle 1977, p. 35.

<sup>21/</sup> See Germán Cárdenas and Carlos Emanuel, La inflación importada: El caso del Ecuador, mimeographed monograph, 1977.

reasons which are not analysed. Nor were the repercussions of other measures restricting imports taken into account; these include prior deposits and tariffs, which underwent changes during the period.

The failure to consider the effect of inflation on export prices may be less important in Ecuador than in other countries, not for theoretical but for practical reasons. First of all, petroleum 22/ (and its products) which is the main export product, has shown total price stability on the domestic market, which has meant that this factor has had a strongly stabilizing influence. Furthermore, the state has made it compulsory to supply all the by-products which the economy requires. In the case of bananas, which is another important export, international prices have become more or less stabilized. The increase in sugar prices was certainly of importance in 1974 and 1975, but since then they have tended to drop and the domestic price has been lower than the international price.

As for coffee and cocoa, where the increase in external prices has affected internal prices, these products are not of great importance in the consumer price indexes. Other products - agricultural or processed - which constitute exports, do so in quantities which could hardly affect the variations in domestic prices.

The increase in the prices of imported products not only affects domestic prices in proportion to the share of imported products in national expenditure, but also affects them to a greater extent owing to the effect which these increases have on the prices of articles produced domestically which are near substitutes for the imports.

The greater opening-up of the economy towards the exterior has meant on the one hand that the country is much more vulnerable than it was in the past to variations in external prices. On the other hand, since the growth of imports has made available a larger supply of goods on the domestic market it has made it possible to reduce inflationary pressures to some extent.

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22/ The prices of the by-products of petroleum are considered here as factors influencing costs. Naturally, the increase in the prices of the exported fuel has inflationary effects in terms of external demand. This will be seen below.

All in all, although it is rather hard to make any accurate quantification of the effect of imported inflation on the changes in domestic prices, the fairly parallel movements recorded in nearly all the years of the period under analysis between external and domestic inflation cannot be ignored.

(c) The exchange rates and the cost of money

As far as cost pressures are concerned, the stability of the exchange rate as from August 1970 has been a stabilizing factor, since domestic prices have risen in manifestly larger percentages than those of the main industrial countries which provide the country with imported products (see table 69). The sucre has thus tended to be over-valued in relation to other currencies (27% between 1970 and 1977). It should be pointed out that there is a discrepancy in the external value of the currency whether it is considered from the point of view of the balance of payments and its real rate in the free market, or from the point of view of the purchasing power of the sucre compared with other foreign currencies.

It has also been a factor which has contributed to stabilizing the cost of money. The bank interest rate most generally applied throughout the period has been 12% per year, plus a surcharge of 1%. This means that, owing to the method of pre-charging interest, the cost of money is an annual 15% in credit operations with a term of one year. During the period, therefore, in those cases where the real cost of the money was positive, owing to a rate of inflation which was less than the nominal cost of the money, this cost was very small and much less than what could be considered the opportunity cost of capital in Ecuador.

(d) Wages

The increases in real wages do not seem to have played a very significant role in inflation in Ecuador. There has been no official mechanism in the country to link periodically the variations in wages and salaries with price increases in earlier periods. However, the Government has on various occasions decreed variations in minimum wages for different categories of workers, so as to safeguard the purchasing power of the least protected sector of the population. The main modifications of minimum wages took place in April 1974, May 1975 and January 1976 (see table 70).



Table 69

ECUADOR: EVOLUTION OF THE REAL EXCHANGE RATE

Year	Real exchange rate	Prices in Ecuador <u>a/</u> (1970=100)	Prices in the United States <u>b/</u> (1970=100)	Relation of prices in Ecuador and the United States (1970=100) (3):(4) x 100	Real evolution of the exchange rate in Ecuador (base: 1970 exchange rate) (2):(5) x 100
(1)	(2)	(3)	(4)	(5)	(6)
1969	19.16	91.5	94.9	96.4	19.88
1970	21.67	100.0	100.0	100.0	21.67
1971	25.71	111.8	105.1	106.4	24.16
1972	24.85	122.3	109.4	111.8	22.23
1973	24.85	139.1	115.8	120.1	20.69
1974	24.85	174.1	127.4	136.7	18.18
1975	24.85	194.8	139.3	139.8	17.78
1976	24.85	213.5	146.4	145.8	17.04
1977 <u>c/</u>	24.85	237.1	151.3	156.7	15.86

Sources: Central Bank, Cuentas Nacionales del Ecuador: 1977; International Monetary Fund, International Financial Statistics, May 1976 and August 1977.

a/ Implicit deflator of the gross domestic product in Ecuador.

b/ Implicit deflator on the gross domestic product in the United States.

c/ Preliminary figures.

/Five categories

Five categories of workers earning minimum wages have been distinguished: general workers, the agricultural workers of the Sierra region, the agricultural workers of the coastal region, the Oriente region and Galápagos, artisan-type workers and those providing domestic services. In March 1974, a monthly bonus of 250 sucres was introduced for all monthly wages and salaries of between 1,000 and 5,000 sucres, and in practice came to form part of minimum wages in permanent form.

Table 70

ECUADOR: MINIMUM BASIC WAGES a/  
(Sucres per month)

	1974 (April)	1975 (May)	1976 (January)
Workers in general	1 000	1 250	1 500
Agricultural workers of the Sierra region	750	750	960
Agricultural workers of the coastal, Oriente and Galápagos regions	900	900	1 080
Artisan-type workers	850	950	1 140
Domestics	450	550	660

Source: Central Bank, Memorias, 1974, 1975 and 1976.

a/ Excludes the monthly bonus of 250 sucres granted as from March 1974 for all monthly wages and salaries of between 1,000 and 5,000 sucres.

Considering the situation of the workers in general, it was observed that the minimum real wage deteriorated in 1972 and 1973 compared with 1971, which was selected as a basis for comparison. Following the readjustments agreed upon in March and April 1974, the minimum wage became stabilized around 10% above its 1971 position. The readjustments in May 1975 and January 1976 made it possible for the real minimum wage to rise 20% above its 1971 level, but by August 1977 this margin had been cut to 8% (see table 71).

Table 71

ECUADOR: EVOLUTION OF MINIMUM NOMINAL AND REAL WAGES <sup>a/</sup>  
(Monthly values)

Year	Nominal minimum wages (sucres)	Consumer price index (1970=100)	Real minimum wages	
			Sucres at 1970 prices	1971=100
1971	750	109.4	686	100
1972	750	117.9	636	93
1973	750	132.4	566	83
1974 (first quarter)	1 000	151.2	661	96
1974 April	1 250	166.7	750	109
1974 December	1 250	174.2	718	105
1975 March	1 250	186.0	672	98
1975 May	1 500	185.0	811	118
1976 September	1 750	210.9	830	121
1977 August	1 750	236.1	741	108

Source: National Institute of Statistics and Censuses; International Monetary Fund, Ecuador: Recent Economic Developments, 1977, and Central Bank, Department of Economic Indicators.

<sup>a/</sup> Includes the monthly bonus of 250 sucres granted as from March 1974.

/From another

From another point of view, it can be seen from the national accounts of Ecuador that between 1970 and 1976 the total real wages paid to employees and workers rose by 70%. Taking into account the increase in employment during the same period, the per capita increase in real wages may be put at 34%. During this period, the per capita gross domestic product grew by 47% (see table 72).

In some sectors of the labour market the collective bargaining between enterprises and syndicates has been of importance. This bargaining has taken into account the increase in the cost of living and expectations of what may take place in the immediate future. In other sectors, particularly in the cases of skilled industrial, transport and construction workers, where there was a shortage of skilled labour, wage increases have been higher than those recorded in the rest of the economic system.

## 2. The expansion of global demand and money aggregates

It is possible to establish firm parallels between the variations in public spending, the growth of money and the changes undergone by prices. The sequence in the case of the economy of Ecuador may be described in the following terms. In August 1972 exports of oil began, and resulted in an exceptional inflow of foreign currency to the country in 1973 and 1974. This income profited the Government almost exclusively, since production costs and the purchases of the oil companies in the country accounted for sums of no great significance. The Government began to increase its spending both on consumption and on investment, but particularly the latter. The increase in spending, however, was less than the increase in earnings, which meant that during this first period the Government or the public sector reduced its net indebtedness with the banking system. This took the form of an increase in public sector deposits and between 1971 and 1972 there was a reduction of net public sector credit of approximately 3,500 million sucres; this process continued more slowly in 1975 and 1976 (see table 73).

Table 72  
ECUADOR: WAGES OF EMPLOYEES AND WORKERS

Year	Total wages of employees and workers (sucres at current prices)	Total wages of employees and workers (sucres at 1970 prices)	Index of real wages	Index of real per capita wages	Index of real per capita GDP
				1970 = 100	
1970	9 800	9 800	100	100	100
1971	11 187	10 263	105	102	102
1972	12 667	10 734	110	103	106
1973	16 420	12 515	128	115	121
1974	22 753	13 959	142	123	138
1975	28 363	15 167	155	130	138
1976	34 563	16 668	170	138	147

Source: Central Bank, Cuentas Nacionales del Ecuador, 1977, and Planning Board.

Table 73

## ECUADOR: SUMMARY OF ACCOUNTS OF THE CONSOLIDATED BANKING SECTOR

(Millions of sucres)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 (May)
Money (M1) <u>a/</u>	3 845	4 361	5 427	6 058	7 257	9 319	13 382	15 539	21 463	22 990
Increase (percentage)	-	(13.4)	(24.4)	(11.6)	(18.8)	(28.4)	(43.6)	(16.1)	(38.1)	(44.0)
Other liabilities <u>b/</u>	3 804	4 507	5 313	5 669	6 928	7 506	8 988	11 335	16 694	17 318
Increase (percentage)	-	(18.5)	(17.9)	(6.7)	(22.2)	(8.3)	(19.7)	(26.1)	(47.3)	(32.6)
International monetary reserve <u>c/</u>	961	1 041	1 402	649	3 254	5 874	8 427	6 428	11 413	13 396
As percentage of M1	(25.0)	(23.9)	(25.8)	(10.7)	(44.8)	(63.0)	(63.0)	(41.4)	(53.2)	(58.3)
Net credit to public sector <u>d/</u>	827	1 376	1 810	2 133	1 523	-231	-1 393	-1 990	-2 132	-4 674
Credit to public sector	5 821	6 388	7 527	8 321	9 307	11 458	16 449	22 199	29 019	31 384
Increase (percentage)	-	(9.7)	(17.8)	(10.5)	(11.8)	(23.1)	(43.6)	(35.0)	(30.7)	(25.8)
Other net assets and liabilities <u>e/</u>	40	63	1	624	101	-276	-1 113	237	-143	202

Sources: International Monetary Fund, Statistical Office, Cuadros monetarios del Ecuador, and Central Bank, Office of Monetary Studies.

a/ Notes and coins outside the banks, plus money deposits by the private sector.b/ Quasi-money, prior import deposits, stabilization and mortgage bonds and other liabilities in sucres and in foreign currency.c/ Assets less short-term liabilities on the exterior.d/ Credits to the public sector less deposits.e/ Minus sign (-) means that liabilities are greater than assets. Includes capital and reserves.

The expansion of demand caused the nominal gross domestic product to grow, but because of inflexible and unyielding factors in the apparatus of production, particularly in the agricultural sector, prices also rose sharply. As imports could not completely offset the increases in earnings and expenditure but gave a delayed and inadequate response, an accumulation of international reserves occurred, which turned the change in the international monetary reserve into the main component of money supply. The international monetary reserve, which had accounted for 11% of money supply in 1971, accounted for 45% in 1972 and 63% in 1973 and 1974.

The increase in exports, the consequent sharp rise in Government earnings, the increase in spending, the growth of money income, the expansion of international reserves and the increase in money supply were therefore different aspects or phases of one and the same phenomenon.

(a) The demand for money and money supply

Generally speaking, it can be said that between 1968 and 1977 there was some increase in the demand for money. This tendency was, however, interrupted in 1973 and 1974, owing to the speeding-up of inflation (see table 74).

It is possible that the increase in the demand for money was due to two main factors. In the first place, to an increasing monetization of an economy in which major sectors of the population were and still are outside the market economy. Secondly, an economy whose product is growing rapidly requires and demands larger money balances, since income elasticity of money is normally higher than one.

With regard to the origin of the money supply, it has already been said that between 1972 and 1974 international reserves of foreign currency grew rapidly and came to represent 63% of the money supply while domestic credit contracted sharply, particularly because of the increase in public sector deposits in the Central Bank. Credit to the private sector, which grew moderately in 1972, increased by 23% in 1973 and 44% in 1974. The rate of growth of the money supply thus acquired momentum; from 12% in 1971 it rose to 19% in 1972, more than 28% in 1973 and nearly 44% in 1974 (see table 73).

Table 74

ECUADOR: RELATION BETWEEN THE GROSS DOMESTIC PRODUCT AND MONEY SUPPLY

(Millions of sucres)

Year	Money <u>a/</u> (ML)	Gross domestic product	Money GDP (percentages)
1968	3 545	27 379	12.9
1969	4 103	29 921	13.7
1970	4 894	34 275	14.3
1971	5 742	40 247	14.3
1972	6 657	47 102	14.1
1973	8 288	63 575	13.0
1974	11 350	93 585	12.1
1975	14 460	108 246	13.4
1976	18 501	130 183	14.2
1977 <sup>b/</sup>	22 990	153 812	14.9

Sources: Central Bank, Technical Office and Office for Monetary Studies.

a/ Average money balances at the end of December of the corresponding year and at the end of the previous year.

b/ Figure corresponding to the money balance at the end of May.



In 1975 the rate of growth of money dropped as a result of a decrease in the international money reserve, which was due to the balance of payments deficit, and a somewhat more than moderate increase in credit to the private sector. The prior import deposits were re-established in September 1975, and this caused a rise in the other liabilities of the money system. In 1976 money increased by 38% owing to an upturn in the international money reserve, once the growth of credit to the private sector had been moderated.

The increase in money in the first half of 1977 reached an annual rate of 44%, as a result of the surplus in the balance of payments, produced by the inflow of foreign credit. Latterly, this tendency was moderated, and it is calculated that between the end of 1976 and 1977 money supply increased by around 25%.

(b) The Central Bank and the private sector in the growth of money

The variations in money kept in step with the evolution of the monetary base (Central Bank money) but with a few differences. Up to 1972, the relation was relatively close with a tendency for the bank multiplier to decrease, dropping from 1.48 in 1968 to 1.23 in 1963 (see table 75). In 1974 and 1975 the multiplier increased again, as a result of smaller increases in the monetary base, and remained at around 1.50 in 1976 and 1977.

In spite of this, the net credit of the banking system and the Central Bank to the public sector does not really measure the magnitude of the monetary effect of the deficit in this sector. As the Government has a large surplus in foreign currency and a deficit in national currency, the latter is covered by the sale of foreign currency to the Central Bank. This means that the increase in international reserves not offset by a reduction of net bank credit to the public sector is the true measure of the net monetary effect of the deficit in this sector.

Table 75

## ECUADOR: MONETARY BASE OF THE CENTRAL BANK AND THE BANK MULTIPLIER

(Millions of sucres)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 May <u>a/</u>
Monetary base <u>b/</u>	2 601	3 073	4 021	4 388	5 423	7 604	9 545	10 193	15 076	15 182
Increase (percentage)	(-)	(18.1)	(30.8)	(9.1)	(23.6)	(40.2)	(25.5)	(6.8)	(47.9)	(45.2)
Other liabilities <u>c/</u>	536	1 056	1 435	1 072	1 554	782	676	1 735	4 172 <u>d/</u>	3 998
Increase (percentage)	(-)	(98.0)	(35.9)	(-25.3)	(45.0)	(-49.7)	(-13.6)	(156.7)	(140.5)	(50.5)
Net external assets <u>e/</u>	846	923	1 379	610	3 251	5 793	8 354	6 139	10 860	12 573
As percentage of the monetary base	(26.1)	(21.8)	(24.8)	(11.0)	(45.8)	(67.7)	(76.5)	(48.7)	(54.1)	(63.2)
Net credit to the public sector	889	1 468	1 854	2 160	1 663	138	-895 <u>f/</u>	-1 275	-985	-3 751
Credit to commercial banks	100	106	128	52	65	108	402	766	1 439	1 600
Credit to the National Development Bank	267	479	473	514	502	748	2 187	3 504	3 938	4 234
Credit to the private sector	712	825	1 094	1 154	1 056	1 057	1 406	2 178	3 265	3 244
Increase (percentage)	(-)	(15.9)	(32.6)	(5.5)	(-8.5)	(-)	(33.0)	(54.9)	(49.9)	(35.4)
Other net assets and liabilities <u>g/</u>	323	328	528	970	440	542	-1 233	616	731	1 280
Bank multiplier (relation of money to the monetary base)	1.48	1.42	1.35	1.38	1.34	1.23	1.40	1.52	1.42	1.51

Sources: International Monetary Fund, Statistical Office, Cuadros monetarios del Ecuador, and Central Bank, Office of Monetary Studies.a/ The increases are in relation to May 1976.b/ Notes and coins in circulation plus money deposits by the public and by the banks.c/ Mainly includes prior import deposits, monetary stabilization bonds and other liabilities.d/ Contains debt servicing deposits, mainly in favour of the public sector.e/ Assets less short-term liabilities on the exterior (including gold and SDRs).f/ The minus sign (-) indicates that sector deposits are greater than sector credits.g/ Liabilities with international development agencies, allocation of SDRs, adjustments for exchange devaluation, capital and reserves and assets and liabilities not classified.

/Although there

Although there is a lack of adequate and easily-obtained data to break down the budgets into their national and foreign currency components, table 76 has estimated the fiscal earnings and expenditure accounted for by inflows and outflows of foreign exchange for 1972-1977. It may be seen that the Government generated a surplus of foreign currency which increased from 90 million dollars in 1972 to 300 million in 1974 and 600 million in 1977. In view of the evolution of the fiscal deficit, a large proportion of these annual surpluses must have been sold to the Central Bank, and constituted a factor of expansion through the increase in the net external assets of this Bank and the international monetary reserve in the case of the consolidated banking system.

Table 76

ECUADOR: ESTIMATES OF GOVERNMENT INCOME AND EXPENDITURE IN FOREIGN CURRENCY

(Millions of dollars)

	1972	1973	1974	1975	1976	1977 <sup>a/</sup>
1. Income implying inflows of foreign currency	58.1	142.4	398.8	421.3	471.8	487.3
2. Imports by public sector	22.5	31.3	72.5	128.4	156.1	187.1
3. External servicing and international quota agreements	7.0	4.8	5.3	4.4	5.5	5.6
4. Disbursements of external loans	105.2	60.0	89.9	108.2	188.5	522.9
5. Servicing of the external debt	40.1	55.3	99.7	55.8	49.6	206.9
6. Surplus of foreign currency generated by the public sector (1-2-3+4-5)	93.7	111.0	311.2	340.9	449.1	610.6

Sources: Central Bank, Statistical Office, Fiscal Studies Office and Información Estadística, March 1978.

a/ Preliminary figures.

/3. Inflation

### 3. Inflation as a result of the disparities in sectoral growth

The CEPAL Survey for 1974,<sup>23/</sup> indicated that in Ecuador there was a considerable imbalance between the rapidly growing modern sector and the backward or traditional sector which in practice has experienced very few changes of significance. This imbalance tended to generate pressures on prices when the conditions of demand and supply among the different sectors were altered.

Stress was laid on that occasion on the importance of the relatively slow growth of the agricultural sector and the supply of food. It should be recalled that between 1968-1970 and 1974-1976, agricultural production grew at an annual rate of only 3.7%. During the same period, production of goods, excluding petroleum, increased at an annual rate of 6.5% and the gross domestic product increased at an annual rate of nearly 10%. It may be supposed that in an economy whose income around 1970 was as low as that of Ecuador, the income elasticity of the demand for food would be relatively high, probably more than 0.7. Consequently, the imbalance in the rates of growth must have produced inflationary pressure vis-à-vis the growth of the demand for food which supply could not satisfy.

However, in order to evaluate the inflationary tensions generated in this way, the variations in the supply of food in the country and not only the value added of the production of the agricultural sector must be considered. For this reason, and so as to obtain the supply of food at current prices, an attempt has been made in table 77 to estimate the value of the gross production of agriculture plus marketing and transport costs either to the centres of consumption or export, by deducting the value of agricultural exports or the value of these inputs in the processed products and adding the value of agricultural imports, plus transport and marketing costs.<sup>24/</sup>

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<sup>23/</sup> See CEPAL, Economic Survey of Latin America, 1974, op.cit., the section on recent inflation in Ecuador, pp. 145-156.

<sup>24/</sup> The value of imports may overestimate their contribution to domestic supply, since international prices have been higher than domestic prices. In any case, any correction would not significantly change the results.

Table 77

EQUADOR: ESTIMATE OF THE AVAILABILITY OF FOOD

	1970	1971	1972	1973	1974	1975	1976
1. Gross production of agriculture, plus transport and marketing (millions of sucres)	16 206	17 972	19 925	25 670	33 829	41 667	45 432
Plus:							
2. Exports of food (millions of sucres)	3 801	5 164	5 761	6 669	10 015	8 748	13 428
<u>Subtotal</u>	<u>12 405</u>	<u>12 808</u>	<u>14 164</u>	<u>19 001</u>	<u>23 814</u>	<u>32 919</u>	<u>32 004</u>
Plus:							
3. Imports of food, plus marketing and transport (millions of sucres) <u>Total</u>	<u>492</u>	<u>587</u>	<u>843</u>	<u>1 059</u>	<u>2 201</u>	<u>2 210</u>	<u>1 836</u>
4. Domestic supply of food (1-2+3) (millions of sucres)	12 897	13 395	15 007	20 060	26 015	35 129	33 840
5. Domestic supply of food (millions of sucres at 1970 prices)	12 897	12 403	12 611	14 328	14 138	16 339	14 338
6. Change (percentage)	-	-3.8	1.7	13.6	-1.3	15.6	-12.2
7. Per capita change (percentage)	-	-7.0	-1.5	10.4	-4.5	12.4	-15.4

Source: Central Bank, department of National Accounts.

/The food

The food supply was deflated by the food price index of the consumer price index and corrected by the growth of the population. The result was - except in 1973 and 1975 when there was an increase of some consideration of more than 10% in each case - that the availability of food in other years declined. Complementing this, if 1970 and 1976 are compared, it can be seen that the domestic per capita supply of food dropped by 8%.

Both the above analysis, and the earlier reference to the relative improvement in food prices, suggest that the hypothesis of the inflexible nature of agricultural production as an important factor in the inflationary process is a reasonable one, although it is not possible to make a quantitative link for each period between the increase in domestic prices and the changes in the supply of food.

#### 4. Stages in the evolution of finance and prices since 1972

After analysing the magnitude of the inflation and the factors which determined it, it is worth dividing the period after 1972 into stages, in order to sum up and demonstrate characteristics and changes in the main financial variables and their effects on the process of inflation and the balance of payments. This has been done in table 78. Four subperiods have been distinguished, although the direction and magnitude of the increase or reduction in a specific variable may have lasted for more than one stage.

From the third quarter of 1972 to the first quarter of 1974 the great expansion of petroleum activity took place; there were also short-term capital inflows. Owing to the lag in imports, the international monetary reserve increased substantially, and the growth rate of money supply rose from 19% in 1972 to 28% in 1973 and 44% in 1974. Following the moderate growth of fiscal expenditure in 1972, notable increases were recorded in 1973 (44%) and 1974 (71%). Credit to the private sector also expanded rapidly, linked to the growth in domestic demand and the government policy to stimulate the agricultural sector. Price increases accelerated from 9% in 1972 to 25% in 1974.

Table 78

ECUADOR: STAGES IN THE EVOLUTION OF FINANCE AND PRICES IN THE PETROLEUM ERA

	Third quarter 1972 to first quarter 1974 (1)	Second quarter 1974 to third quarter 1975 (2)	Fourth quarter 1975 to fourth quarter 1976 (3)	1977 (4)
Balance of payments	Strongly positive as a result of petroleum exports and inflows of short-term capital	Negative as a result of a drop in petroleum exports. Increase in imports and outflow of short-term capital	Positive owing to stabilization of imports. Normalization of petroleum exports. Later, positive owing to increases in exports of coffee, cocoa and external loans at the end of the year	Surplus owing to external debt
Fiscal expenditure (total, current values)	Moderate increase in 1972 and very strong in 1973 and 1974 (44% and 71%)	Moderate increase in 1975 (10%)	Increase accentuated in 1976 (31%)	Slightly smaller increase in 1976 (around 25%)
Credit to the private sector	Between 1972 and 1974 the increase speeded up from 12 to 44% annually	In 1975 the growth dropped to 33%	In 1976 it dropped to 31%, but the increase was stronger in the second and third quarters of 1976	In 1977 the increase dropped by around 20%
Money supply	The increase of 19% in 1972 became 28% in 1973 and 44% in 1974	In 1975 the increase dropped to 16%	In 1976 money increased by 38%, owing to the balance-of-payments surplus and the expansion of credit to the private sector	The increase in money dropped to approximately 25% owing to the more moderate expansion of credit and the magnitude of the open market operations of the Central Bank
Prices (deflated prices of the gross domestic product)	Acceleration of increases from 9 to 25% annually between 1972 and 1974	In 1975 the increase dropped to 12%	In 1976, it dropped to less than 10%	In 1977 prices rose by 11%

Source: Tables 27, 66 and 73.

A second stage was contained between the second quarter of 1974 and the third quarter of 1975. The position of the balance of payments worsened owing to a drop in exports of petroleum and the increase in imports together with an outflow of short-term capital. External monetary reserves fell, fiscal spending increased moderately but credit to the private sector continued to expand at a fairly high rate. In the third quarter of 1975 corrective measures were adopted to re-establish the external balance. In 1975 the increase in money was smaller and prices only rose by 12%.

A third period could be considered to be that between the fourth quarter of 1975 and the fourth quarter of 1976. The equilibrium of the balance of payments was re-established owing to the recovery of petroleum exports and the restraint placed on the growth of imports. Credit was relatively restricted and the same thing occurred with fiscal expenditure. Between the second and fourth quarters of 1976, however, fiscal expenditure began to expand again as did credit to the private sector. The balance of payments continued to be positive not only because of developments in the previous months, but also because of the boom in cocoa prices and the flows of external loans. Although money grew more rapidly than the year before, the rate of inflation dropped to 10%.

In 1977 the increase in public spending dropped compared with the previous year and the balance of payments was stabilized by the considerable amount of external credits which it received. The rate of increase of credit to the private sector and of money dropped substantially; the latter was mainly due to the successful placing of monetary stabilization bonds in the open market. Prices rose by around 11%.

#### 5. The anti-inflationary policies

During the period under analysis, following the beginning of petroleum exports, it was not possible to formulate wide-ranging integral stabilization programmes to reduce inflation. What was done was to apply selective policies in some areas of the economic system. Prominent among these were political measures aimed at increasing production especially of foods, as well as policies to expand the supply of imported goods and reduce their

/costs, policies



costs, policies which aimed at a better supply of consumer goods and the control of their quality, and those intended to orient the evolution of prices and wages. Activities undertaken in the fiscal and monetary fields were also important.

(a) Stimulus to production

The Government made substantial efforts to encourage production in various sectors. In the context of industry, mention should be made of the Industrial Development Law, as well as the Law for the development of small-scale and artisan type industry, fisheries and tourism, the features of which have already been described. At the same time, credit institutions have been developed for these sectors of production and an attempt has also been made for credit to be granted under more suitable conditions in terms of costs and time limits.

The Government has given particular attention to developing agricultural production since 1974. It would be hard to deny that these efforts had some success since sector production showed a notable improvement in the period 1973-1976. In this context, mention should be made of measures aimed at liberalizing import duties on machinery and inputs, such as classified seeds, fertilizers, insecticides and pesticides which are used by agriculture. At the same time, the Government has imported animals for breeding purposes with the object of stimulating the development of livestock-farming.

Price readjustments were granted to stimulate the agricultural sector, particularly in 1974, when there were increases in such products as meat, milk, maize, wheat, pulses and sugar; the price of the last-mentioned was later the object of further readjustments.

Efforts were made to achieve fair prices at the producer and consumer levels, an ordered marketing system and an assurance of the quality of production. In this context, success has been somewhat limited, and the intervention agencies have proliferated.

The activities of the Ministry of Agriculture and Livestock were also expanded through the National Institute for Agricultural and Livestock Research (INIAP) and the agricultural extension services so as to disseminate the technology and the most modern and suitable production systems for all types of crops, as far as the level of the rural workers.

/It should

It should be recalled that agricultural credit expanded substantially and increased its share in total credit. A large part of the capital formation of the Development Bank and the more substantial quantity of public resources which the Central Bank has placed at its disposition, have mainly gone into this activity. This was also the case of the resources of the Financial Funds mechanism, set up by the Central Bank in 1973.

(b) Exchange and external trade measures

With regard to exchange and external trade policy, the inflationary effect of the 1970 devaluation and the stabilizing effects of maintaining the exchange rate at a fixed level in nominal terms as from that date has been felt. The export taxes introduced in 1970 were also anti-inflationary, and the same may be said of the increase in the tax on exports of coffee in 1977, which was an important aid to fiscal income.

The policy which has been followed with regard to prior import deposits may have affected the level of imports, but probably it has done so to a greater extent because of its monetary implications. In 1973 prior deposits were eliminated so as to reduce the excess of foreign currency by means of an increase in imports. This measure had two entirely opposite effects; on the one hand it increased liquidity and its impact was inflationary; on the other, it liberalized imports and was a stabilizing measure. The tariff reductions which took place in the first quarter of 1974 also had a double effect. In 1975 prior import deposits were re-established, which meant a restriction on money supply and an increase in the cost of the imports. This measure took the deficit position of the balance of payments more into consideration than the monetary situation; however, it contributed to reducing the rate of inflation in that year and at the beginning of 1976. Also in 1975 surcharges equivalent to 30% of the CIF value were established on imports of the least essential goods. The imposition of these duties aimed at reducing the demand for imports, and although they were not fiscal in nature, they tended to reinforce government earnings.

/The halving

The halving of the prior import deposits for the most essential goods contained in List I, decreed at the beginning of 1977, however, does not seem to have been directed by conjunctural requirements, but rather by considerations of a technical nature aimed at the gradual elimination of a restriction which no longer appeared to be justified.

(c) Fiscal measures

The tax changes which have taken place during the period have only to a secondary extent been motivated by the desire to increase fiscal income.

As far as expenditure is concerned, it is difficult to deny that the exceptional increase in spending contributed largely to aggravating the inflationary process in 1973 and 1974. During the next few years, the increase in expenditure was slightly more moderate, but earnings, particularly domestic earnings, have not kept up with the rate of increase which would have been required. The growth of the fiscal deficit and how it was financed, especially in 1976 and 1977, thus had effects on the monetary situation similar to those observed in 1973 and 1974 as a result of petroleum earnings.

(d) Supplies, prices, subsidies and wages

With regard to the regulation of supplies and prices, although the organizations established during this period took action to restrain movements of a speculative nature, to some extent they lacked policy co-ordination, and this diminished the effectiveness of their results.

The General Office for Marketing and Enterprises, part of the Ministry of Agriculture and Livestock, is responsible for formulating policies on research, production and marketing. In addition, the National Enterprise of Vital Products (ENPROVIT) was set up in 1971, and the National Enterprise for the Storage and Marketing of Agricultural Products (ENAC) in 1976. In 1973 the Office of the Superintendent of Prices was established, but it was done away with in 1977, when its powers were transferred to different ministries and units.

ENAC is responsible for implementing wholesale marketing policies for agricultural products and inputs, and for promoting, orienting and proposing these policies in co-ordination with the plans and programmes

/for the

for the economic development of Ecuador. ENPROVIT intervenes directly or indirectly in marketing through the sales and purchase of essential products for human consumption, so as to prevent and control speculation, illegal monopolies, hoarding and other causes of artificial and unfair increases in prices and shortages on the market.

Of these institutions, ENPROVIT has aroused least resistance, since what it does is establish and sell food at prices lower than those to be seen in private establishments. It has experienced problems of supply or of too few establishments, especially in some places. ENAC and the Office of the Superintendent of Prices, however, which are most directly concerned with the interests of the intermediaries, have had more difficulties in their operation. ENAC has had to face up to relatively major marketing problems since it was founded. It suffers from lack of adequate technical staff and this has been felt, particularly as it has been handling annual resources of more than two billion sucres.

Generally speaking, price regulation is definitely complex because the objectives are different at the level of the producer, who must be stimulated with remunerative prices, and the consumer for whom maximum prices have to be set with the object of protecting his level of living.

The regulating agencies have also had to set import requirements and amounts. In so doing, as in marketing the surpluses of products with excess yields, the various bureaucratic authorities have acted rather slowly. There is no doubt, however, that the major imports, particularly wheat, milk, oil, barley and some other less important products, or the occasional imports of rice, have contributed to a better supply of food. Imports of wheat, milk, soya oil and rice were strongly subsidized, as were agricultural fertilizers.

Subsidies were also granted in 1974-1976 to the domestic production and export of rice, maize and cotton. Some products received subsidies through the National Development Bank or from ENAC.

From another angle, the fundamental importance of the implicit subsidies in maintaining the domestic prices of petroleum products at levels similar to those in force in the world market prior to 1973 should be recalled.

One of the objectives of the wages policy has been that it should not contribute to an autonomous increase in costs, and for this reason all readjustments of an automatic nature have been rejected. Complementary to this, the central objective of the increases in minimum wages already mentioned was to re-establish the purchasing power of the workers which had deteriorated owing to price increases.

(e) Monetary policy

Numerous monetary policy measures have been taken, many of them aimed at reducing inflationary pressures. In addition, monetary policy has pursued other objectives, such as offsetting the ups and downs of the external sector and stimulating the development of production.

(i) Ceiling on portfolio holdings. An instrument of monetary policy which has been used throughout the period has been the ceiling on portfolio holdings placed on banking institutions. These regulations were introduced in August 1970, when a maximum rate of an accumulative 3% per quarter was set on the expansion of credit operations by the banks.

In December 1973 a maximum expansion percentage on the credit operations of private banks was established for 1974. The portfolios of these institutions could not exceed 3% in the first quarter, 6% in the second quarter, 9% in the third and 12% in the last quarter, on the basis of the actual portfolio balances at 31 December of the year immediately preceding the date in which this regulation was drawn up. In June 1974, the National Development Bank was also subject to ceilings on portfolio holdings similar to those existing for the private banks.

In June 1975 a number of credits for specific purposes were exempted from these ceilings, particularly those favouring enterprises which could qualify for the benefits of the industrial and fisheries development laws.

In April 1976 new ceilings were set at an accumulative 1.5% per quarter; at the same time different operations connected with the financing of the agricultural, mining, fisheries, industrial and artisan sectors were exempted. In July 1976 new exemptions were added and a year later new rates of expansion equal to an accumulative 3% per quarter were established.

The growth of banking credit has throughout the period been much greater than that of the margins imposed by the ceilings. When there are two different factors limiting the expansion of credit, as has been the case in recent years in Ecuador, the only one which is really effective in practice is that imposed by the legal reserve. Since more than half bank credit is outside the ceilings system, including the credit of the Financial Funds which benefits a broad range of production activities, the banks always have the possibility of providing financing through such machinery as is not subject to ceilings, when the conditions of their legal reserves so permit. At best, the ceilings system may reduce certain types of credit which could be considered less desirable.

(ii) Legal reserves. The Central Bank has actively used the mechanism of varying the percentage of the legal reserve to which the monetary liabilities of the banks are subject.<sup>25/</sup>

In November 1974, in view of the monetary expansion and the rise in prices observed, the legal reserve increased from 30 to 35%. Later in April 1976 it dropped from 35 to 30%, and this decrease was in force until September of the same year, when a gradual process to re-establish the 35% reserve was begun.

(iii) Central Bank credits. The direct credit operations of the Central Bank with the banks and with the private sector have periodically been fairly liberal or fairly restrictive. Credit to the National Development Bank grew considerably in 1973, 1974 and 1975 in order to benefit agriculture and livestock. Over the next two years the expansion was more moderate.

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<sup>25/</sup> The time deposits of private banks are subject to a legal reserve of 20%. The National Development Bank is subject to a legal reserve of 10% on all its deposits. The mutual benefit societies, which tap savings and provide loans to build houses, are subject to legal reserves of 15% on their savings and time deposits, when their total is less than 100 million sucres, and 20% when they exceed this figure. The Housing Bank of Ecuador is subject to a legal reserve of 10% cash and savings deposits and 8% on time deposits. All deposits in foreign currency are subject to a legal reserve of 15%.

The financing of the commercial banks also increased notably in 1974. This financing had previously always been very restricted, because the private banks in general have been unwilling to resort to Central Bank credit. Its increase as from 1974 was associated with the Financial Funds, financing system already described, which was of a selective nature. Credit to the private sector has been relatively important throughout the period. Between 1970 and 1973 it was maintained at an annual level of approximately one billion sucres, but it increased considerably in 1974, 1975 and 1976. Its growth dropped off in 1977.

From mid-1975 to the first quarter of 1976, in view of the deficit on balance of payments, Central Bank credit became somewhat restrictive. After the first quarter of 1976 and up to the end of the year, Central Bank loans increased sharply and contributed to reviving the inflationary type pressures which had dropped to a minimum in April of that year. In the last part of 1976, in view of the sharp increase in the international monetary reserve owing to fiscal financing through external loans, the credit policy of the Central Bank was much more selective and moderate. This situation prevailed until the end of 1977.

(iv) Open market operations. The issuing institute began to place monetary stabilization bonds in 1972 so as to absorb excesses of liquidity. The operations came to be fairly important in 1973, but declined in 1974, increasing in 1975 but to an unimportant extent. At the end of 1976 the measure was adopted of issuing maturity bonds of up to 30 days and very active propaganda was introduced in order to place them. In 1977 too, the Central Bank began to sell bank acceptances on the open market. These two types of operation meant in 1977 an absorption of liquidity of more than 1,100 million sucres, equivalent to around 5% of the money supply.

(v) The rate of interest. The interest rate has not been used by the Central Bank as an instrument of monetary control. During the period under review, the tax system on bank credit was simplified with the establishment of a single annual 1% rate. At the beginning of 1975 modifications were made in the different rates of interest for assets and liabilities, both of the issuing institute and the commercial banks and

/other credit

other credit institutions. The object of this decision was to standardize them, make them more consistent and to determine guidelines for granting credit to some sectors and to a lesser extent to others.

In 1976 in order to induce the banks to provide longer-term financing, the credit institutions were empowered to collect commissions ranging from 2 to 4% in addition to the maximum rates of interest authorized, which could be collected on credit with a term of more than three years. This measure has, however, given poor results.

(vi) Controlling external indebtedness. In 1973 taxes were introduced on obtaining credits abroad, with the object of avoiding the inflow of foreign currency taking place as a result of the entry of short-term capital. This measure was amended in 1975, removing the taxes on longer-term credit in view of the weakness of the balance of payments at that moment. At that time an External Credit Committee was set up, which functioned until 1976. As from then, when a situation of substantial indebtedness with the exterior was deliberately started, control of external credit has been exclusively in the hands of the Monetary Board and the Ministry of Finance. In mid-1977, the Government decided that the indebtedness of public sector institutions abroad should be earmarked exclusively for financing imports, in order to reduce its inflationary impact.

(vii) Foreign exchange operations on the free market. When the Central Bank began operations in the free foreign currency market, its purchases had the effect of increasing the means of payment. Later, the situation was reversed, and during 1974 the Bank was a net seller of foreign currency. Sales came to a standstill when in the second half of 1974 the international monetary reserve began to decline and the official exchange rate increased substantially by around 10%. In August 1976, the Central Bank was once again authorized to operate on the free market, but at exchange rates fixed periodically by the market and similar to those in force in the commercial banks and the money exchange offices. Up to mid-1977, sales of foreign currency in this market were an important factor in the absorption of liquidity.

/(viii) Financial



(viii) Financial programming. In recent times the Central Bank has prepared financial programmes, setting itself certain targets for the growth of the main monetary variables. For this purpose, the expected rates of growth of the real product and calculated rates of increase in prices have been considered. Parallel to this, using estimates of the variations in the international monetary reserve and the financing requirements of the public and private sectors, the corresponding targets have been set in the form of projections of monetary tables. At the end of 1975 the monetary programme was officially adopted; however, several of the monetary aggregates showed a different evolution from that anticipated. In 1977 another programme was prepared without official approval; the results achieved were close to the projections.

#### 6. Some distortions stemming from inflation

One of the characteristics of any inflationary process is that the price increases throughout the economy are not of equal intensity, and consequently in the course of the process there are changes in the relative prices which influence the distribution of income and the allocation of the resources of production. The problem is aggravated when the authorities fix or stabilize certain prices which they consider to be of key value, precisely to reduce the rate of inflation. In many cases the desired objectives are achieved, but other effects are produced which are harmful for the development of the economy.

The most evident distortions produced by the recent inflation took place in the rate of interest, the exchange rate, in wages and in some key prices.

##### (a) The rate of interest

In view of the inflation which has existed in recent years, the nominal annual 15% rate of interest on credit implies in practice a real annual rate of interest of approximately 2.5%. This is certainly much lower than the alternative social cost of capital in Ecuador.

A partial advantage of this distortion is that it reproduces cost pressures, although the stabilizing importance of this factor may have been somewhat exaggerated. However, very low or negative real rates of

/interest diminish

interest diminish the supply of savings which goes to the financial markets, and therefore makes the strengthening and expansion of these markets difficult and creates a serious obstacle to the medium- and long-term financing which the development of the economy requires. Furthermore, in the case of Ecuador, while the nominal domestic rate of interest is higher than the external rate, there is an inducement to seek more financing abroad while there are reasonable expectations that the exchange rate will not change.

The low rate of real interest tends to stimulate the use of labour-saving processes or techniques, i.e., more capital-intensive techniques. This obviously is not in keeping with the type of resources which Ecuador possesses. This trend is aggravated by the fact that the laws of promotion reduce or exempt from custom duties imports of equipment and machinery and establish tax reductions on investment. Employment, however, is directly affected by social security contributions.

(b) The exchange rate

The increasing over-valuation of the sucre, as a result of an inflation which is more accentuated in Ecuador than in the countries with which it trades, and the maintenance of a fixed exchange rate with respect to the dollar for seven years, were commented upon above. This has not meant the generation of external disequilibria in the face of the magnitude of petroleum exports, the favourable prices of coffee and cocoa, and the large inflow of capital in 1976 and 1977. The weakness of the current account, however, has become evident, especially in the last year considered.

This distortion, which motivates imports and discourages exports, does not favour the development of the economy in the long-term. It makes it especially difficult for the country to obtain the profits corresponding to it in the regional integration processes, since the only defence and the main stimulus of Ecuador's producers will possibly be the exchange rate. The over-valuation of the sucre on the other hand tends to favour those industrial activities which use a larger proportion of imported inputs.

(c) Prices of some fundamental goods and services

The prices which have turned out to be most distorted by inflation are those of numerous important foodstuffs, public services (transport, electricity) and petroleum products, in the last two instances adversely affecting the growth of government income in direct form.

Where the prices of goods produced by the private sector are concerned, the distortions have cut down supply. In the case of State goods and services, the question which should be asked is which produces greater social profit - a sucre swallowed up in the sale of low-cost transport, or the same sucre expended on public works or education, housing or health.

Furthermore for the prices of petroleum products, it should be mentioned that their stability has contributed not only to an excess of domestic consumption but also to contraband towards border countries, which at the same time has an adverse effect on the development of other alternative energy sources, particularly hydroelectricity.

It is true that the maintenance of the distortions indicated has influenced the fact that price increases have been less than they might have been, but it is not evident that this offsets what has been lost in terms of development and social growth. On the other hand, when the distortions last for a long time and especially if they continue to increase, it is very probable that the day will come in which the readjustment will be inevitable and then the effects which it has been hoped to avoid may manifest themselves in a more extreme form.

#### IV. EVALUATION AND PROSPECTS

##### 1. Some results and a comparison with targets

The oil-producing years have brought many benefits to Ecuador. For more than five years the country has enjoyed economic growth rates much higher than the historical trend and much higher than those of similar countries, and a substantial rise in its investment coefficients. This has made possible the expansion and modernization of many sectors of the Ecuadorian economy, the growth of an entrepreneur class and the spread of greater technical knowledge among part of its working population.

Rapid development in some sectors of the economy - manufacturing, construction, public services, commerce and finance - has considerably increased the proportion of the population belonging to the middle classes, and strengthened their economic power.

Ecuador appeared, particularly in 1973 and 1974, to have overcome for a substantial period, the limiting factor of its importing capacity, which acted as a brake on development. However, the economic system adjusted very quickly to the new level of inflows of foreign currency, and if items other than petroleum (coffee, cocoa and external credits) had not reinforced them, more serious imbalances would probably have arisen in the external sector, and this would have cut back the growth rates. This points to the vulnerability of this sector, and to the fact that, if upward trends do not continue, the former balance-of-payments problems which plagued the country until about five years ago might re-emerge.

At all events, the economy has managed to remain an open one, and the temporary limitations on imports which were imposed in 1975 had no perceptible effect on the functioning, or the expansion of the economy.

Businessmen, government officials, economists and, one might say, most Ecuadorians, are optimistic concerning the future of the country.

Negative elements which have emerged recently are disparities in growth as between different regions; a falling behind of agricultural output, notwithstanding satisfactory results between 1974 and 1976; inflation, leading to distortions in the price systems; the type of industrial

/development, which

development, which is excessively capital-intensive and highly dependent on imported inputs, and the fact that the poorest social strata did not share sufficiently in the spectacular rise in incomes, together with the very slow decline in the numbers of marginal members of society and disguised unemployment.

The year 1977 was the last of the five covered by the Integrated Change and Development Plan drawn up by the Planning Board. It has already been seen that industrial development approximated to the plan targets. On the other hand, there were more limited efforts in the programmes of agrarian and tax reform and towards the objective of social transformation, a reduction in the numbers of marginal members of society and the redistribution of incomes.

The rate of increase in gross domestic product between 1973 and 1975 was 15% higher than planned; gross investment and public investment were 13% and 9% higher than the plan targets respectively.

In contrast, performance in petroleum production fell well short of the goals of the Plan. Whereas it was hoped that production would rise from 92 to about 147 million barrels a year between 1973 and 1977, it fell in fact from 76 to 67 million barrels. The plan projections were for an increase in production of 400,000 barrels a day, which would have required substantial additional investment in the industry. However, in 1974, for reasons of conservation, extraction was limited to a maximum of 210,000 barrels a day. In addition, as a result of a considerable rise in domestic consumption, exportable balances fell from 59 to 42 million barrels a year between 1973 and 1977, whereas the Plan provided for an increase from 86 to 129 million barrels. Nevertheless, inflows of foreign currency were offset by the rise in the price of petroleum from the end of 1973.

In the field of health, progress was made between 1970 and 1975 in reducing diseases such as diphtheria, poliomyelitis, tetanus, malaria and rabies, but high incidence rates persisted for tuberculosis, typhoid, dysentery and other diarrhoeal diseases. The construction programme for hospitals and health centres has been making satisfactory progress.

## 2. Policies and problems

The results obtained and the policies followed in Ecuador in recent years make it legitimate to ask what other solutions might have been adopted to eliminate or alleviate some of the problems, imbalances and distortions which have appeared in Ecuadorian growth and which still hang over the country's future development.

It should be remembered that the sudden ownership of a large amount of foreign currency removes two fundamental obstacles to development: the external deficit and the shortfall in savings. As has been seen, this happened in Ecuador. But this does not improve the absorption capacity, a term encompassing a number of factors which represent hindrances to the efficient use of resources in productive economic activity. These include the absence of elements which work in support of capital, such as entrepreneurial capacity, technical knowledge, skilled workers and sound administration. Overcoming this obstacle is a very slow process, although the insufficiency of some of its components can be dealt with more quickly through judicious imports of goods or technology.

### (a) The magnitude of growth and the type of growth

One solution which might have avoided tensions and distortions would have been an attempt to achieve more moderate growth, lower in particular than the growth which occurred in 1973 and 1974, which in the longer term was practically impossible to sustain. This would have involved a smaller increase in public expenditure and, perhaps, the financing of local expenditure using only the counterpart of the additional imports needed for the "sustainable growth rate", plus prudent accumulation of foreign currency in the Central Bank. This would have reduced the net indebtedness of the Government to the Central Bank still further, or limited the rate of extraction of petroleum - which did happen in part starting in 1974.

Another possibility was increased taxation of non-petroleum activities, especially since government expenditure was of great importance in the development of the other sectors of the economy, and since the relative loss of petroleum revenues in recent years has been increasing the fiscal deficit.

/Nevertheless, a

Nevertheless, a reduction in public expenditure was in fact difficult to justify in view of the enormous problems which the country faced. At the same time, there was a great deal of public and also private expenditure which could have been reduced or redirected - generally unnecessary or deferrable expenditure which benefited the sectors with high or medium-high incomes.

From another more general angle, the dilemma facing Ecuador, like many other Latin American countries, is whether economic development will follow a traditional model in which it is hoped that economic improvements will be gradually passed on to the lower-income groups, or whether more fundamental reforms in the patterns of distribution will be introduced from the outset.

Even if the growth model adopted is the one which has applied so far - the first of the above alternatives - the facts show that if the benefits of such growth are to be distributed more equitably, measures must be taken to ensure that public investment and expenditure, and their financing, are so structured as to provide proportionally more benefits to the less well-off social groups.

(b) Essential strengthening of the external sector

If the country is to be able to maintain economic growth rates similar to those achieved in recent years, its external sector must be strengthened. A realistic exchange rate policy which takes into account certain observations made previously must play a fundamental role.

It has already been pointed out that in 1974 it appeared that the limitations which the external sector imposed on development had disappeared for some time. However, the balance-of-payments weaknesses which began to emerge in 1975 have become more evident in recent years. The improvement observed in 1976 reflected to a large extent passing circumstances due to the boom on the international coffee market and also the record exports of cocoa products. However, the balance-of-payments surpluses of 1976 and 1977 were made possible only at the price of substantial external borrowing.

/Expansion of

Expansion of oil production and exploitation of natural gas appear to be essential for strengthening the external sector, and also for carrying out the most important industrial development projects planned by the country. This raises difficult policy problems, since it is necessary to reconcile the clear desire of the authorities to maintain and consolidate control over this basic natural resource with the urgent need to secure capital and technology for efficient exploitation.

Within the same context proper importance must be attached to the borrowing policy. Ecuador used to follow a very conservative policy, and up to 1976 was a country with a fairly wide borrowing margin, whatever the variable with which the total debt and debt servicing was compared. From the end of 1976 and during 1977 the Government's policy changed considerably. Various loans have been arranged, principally from United States and European banking consortiums, with repayment periods of up to seven years, in some cases with grace periods of up to two years, and with a variable interest rate based on LIBOR, plus a surcharge which has fluctuated between 1.25 and 1.75% a year.

Extensive, indiscriminate borrowing to finance all kinds of projects without very careful consideration of the terms can lead to serious problems in the future, especially if exports do not tend to expand more quickly. Restraining imports is extraordinarily difficult in a country which is adapting to new levels, particularly as industry and employment have come to depend greatly on imports of raw materials, machinery and spare parts. What can be restrained in this area are luxury consumer goods imports, but these do not account for much expenditure of foreign exchange in relation to total expenditure.

As far as external credits are concerned, the use made of the resources obtained by the country must be evaluated with great care. Investment financed in this way should produce clear social benefits and should as far as possible lead to the generation or saving of foreign exchange which can be used to service the debt. Likewise, it is not desirable that external credits should be a substitute for insufficient domestic taxation.



(c) Income distribution and employment

It appears essential to define and adopt a co-ordinated set of measures to permit improvement of the distribution of income. In the first instance, it is necessary to stimulate economic activities which create or generate more employment. One of the reasons for the great differences in income distribution is the existence of a large number of workers with minimal marginal productivity.

The same purpose would be served by a policy to improve and train manpower, in other words, to train the human resources which are essential to galvanize the development process. In this regard the relatively low priority given by official policy to the development of primary education, as compared with secondary or higher education, has already been discussed. According to data published by PREALC, more than half the school population in the rural sector abandon their studies after the first year, and only 22% of entrants complete the courses. In the urban sector, drop-outs were rather fewer, but at all events the courses were completed by about 65% of the entrants. There is also a great shortage of teachers for primary education; in many of the country's schools a sole teacher has to teach all six levels of instruction. In addition, for the purposes of training it would be desirable to set up technical, vocational and handicraft schools to follow primary education, with the aim of training the skilled workers who are clearly both badly needed and scarce.

An important instrument for contributing to the advancement of the poorest groups is action by the public sector. As has already been seen, it would seem desirable to increase the revenue of the public sector, particularly the taxes which are collected in local currency, especially as there are many productive and financial activities which are inadequately taxed. Furthermore, the improvement of fiscal revenues would help to strengthen the balance of payments, reduce inflationary pressures and promote public works and economic infrastructure which are essential for the economic development of the country. Since taxes are basically paid by the sectors which are not excluded from economic activity, a rise in the domestic revenue of the public sector and some redirection of expenditure in order to give more benefit to the marginal sectors should be an important element in ensuring that more of the benefits of economic development reach the lower-income sectors.

### 3. Planned investment projects

In order to give an idea of the Government's plans for the future, it seems desirable to indicate in outline the investment which is planned, since the new Development Plan is still being prepared.

The investment projects in various stages of study and preparation, corresponding mainly to public sector investment, will cost a total of about 6,500 million dollars. They are to be financed using about 3,500 million dollars of external resources, and full co-operation is hoped for from multilateral international credit institutions and private bodies.

The biggest part of the programme (32%) represents investment in the petroleum sector. It is followed by electricity, with 23%, and agriculture with something under 15%. Industry and transport will each receive 12%, and the remaining sectors, such as tourism, telecommunications, health, education, urban development and water supply, will receive smaller shares.

In agriculture there are to be projects for irrigation, rural development, drainage, forestry development and programmes for oil seeds and cocoa.

In the petroleum sector, about three quarters of the planned investment is scheduled for the petrochemicals complex. A considerable increase is planned in investment to increase production of petroleum - which is essential for the petrochemicals project - and for the completion of the Esmeraldas sea terminal, a gas plant in Shushufindi, two multipurpose pipelines to carry by-products from Shushufindi and Esmeraldas to Quito, a refinery in Oriente region, other multipurpose pipelines to carry refined products to Guayaquil and Cuenca, and an ammonium-methanol plant.

Of interest in the industrial sectors are projects for the motor vehicle industry, naval dockyards, the expansion of cement production, investment in agro-industries and an integrated iron project.

The energy sector includes the Toachi project, still under consideration and the Coca project, whose estimated cost is 800 million dollars. It is also planned to set up a national transmission system, and investment in rural electricity supply is projected.

/As far

As far as transport is concerned, at least half of the planned investment is to be used to improve road transport, and almost half - nearly 400 million dollars - for the construction of two new airports in Quito and Guayaquil.

In the health sector, most of the investment is destined for regional hospitals in various urban centres in the provinces.

The programme is undoubtedly ambitious. Of fundamental importance in drawing it up was the progress recorded in recent years in the analysis, study, preparation and evaluation of investment projects, especially the efforts of the Planning Board and such bodies as CENDES and FONAPRE.

Table 79<sup>a/</sup>

ECUADOR: EVOLUTION OF THE TOTAL POPULATION

(Thousands)

Year	Population	Growth rate
1950	3 224.5	-
1951	3 316.5	2.8
1952	3 412.1	2.9
1953	3 511.4	2.9
1954	3 614.6	2.9
1955	3 721.9	3.0
1956	3 833.3	3.0
1957	3 949.2	3.0
1958	4 069.6	3.0
1959	4 194.9	3.1
1960	4 325.2	3.1
1961	4 460.8	3.1
1962	4 601.9	3.2
1963	4 748.7	3.2
1964	4 901.6	3.2
1965	5 060.7	3.2
1966	5 226.5	3.3
1967	5 399.1	3.3
1968	5 579.0	3.3
1969	5 766.4	3.4
1970	5 961.7	3.4
1971	6 165.3	3.4
1972	6 377.6	3.4
1973	6 599.0	3.5
1974	6 830.0	3.5
1975	7 090.0	3.2
1976	7 316.9	3.2

Source: National Planning Board.

a/ This table is a source for table 10.

Table 80<sup>a/</sup>

ECUADOR: DEMOGRAPHIC INDICATORS

	1950	1955	1960	1965	1970	1975 <sup>b/</sup>
<u>Total population (percentages)</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Males	49.9	50.0	50.1	50.2	50.3	50.3
Females	50.1	50.0	49.9	49.8	49.7	49.7
<u>Total population (percentage)</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0 - 4 years	17.5	18.0	18.7	18.6	18.6	17.8
5 - 14 years	25.8	26.3	26.7	27.6	28.0	28.3
15 - 64 years	53.2	53.0	52.0	51.3	50.8	51.2
Over 64	3.5	2.7	2.6	2.5	2.6	2.7
Number of males for every 100 females	99.6	99.9	100.3	100.7	101.0	101.3
Average age (years)	18.3	17.8	17.3	16.9	16.6	16.8
Percentage of urban population	28.4	31.3	33.7	36.4	38.7	41.6
Density per km <sup>2</sup>	11.0	13.0	15.0	18.0	21.0	25.0
	<u>1950-1955</u>	<u>1955-1960</u>	<u>1960-1965</u>	<u>1965-1970</u>	<u>1970-1975</u>	
Birth rate (percentages)	46.0	46.6	45.4	44.6	41.8	
Death rate (percentages)	18.5	15.3	12.9	11.0	9.5	
Life expectancy (years)	47.2	51.0	54.2	57.2	59.6	
Males	45.8	49.6	52.9	55.8	58.2	
Females	48.7	52.5	55.7	58.7	61.2	

Sources: United Nations Secretariat, Department of Economic and Social Affairs, Population Division, Selected World Demographic Indicators, by country, 1950-2000, May 1975; World Bank, Current Economic Position and Prospects of Ecuador, December 1976.

a/ This table is a source for table 10.

b/ Estimates.

Table 81<sup>a/</sup>

ECUADOR: ECONOMICALLY ACTIVE POPULATION BY SECTOR OF ECONOMIC ACTIVITY

(Thousands)

	1968	1969	1970	1971	1972	1973	1974	1975	1976
Agriculture, forestry, hunting and fishing	867	875	883	890	897	903	909	913	918
Mining and quarrying	5	5	5	5	5	6	6	6	6
Manufacturing	219	230	241	253	265	277	290	304	318
Electricity, gas and water	6	6	5	6	6	6	6	6	6
Construction	51	55	60	65	70	76	82	89	96
Commerce	160	169	178	187	197	207	217	229	240
Transport, storage and communications	53	53	54	54	55	56	57	58	60
Services	233	254	276	300	325	353	383	415	449
Population employed	1 594	1 647	1 702	1 760	1 820	1 884	1 950	2 020	2 093
Unemployment	59	61	63	65	68	70	73	76	78
Economically active population	1 653	1 708	1 765	1 825	1 888	1 954	2 023	2 096	2 171

Source: Household surveys and population and housing censuses, processed by the Planning Board.

a/ This table is a source for table 37.

Table 82<sup>a/</sup>

ECUADOR: TOTAL SUPPLY AND DEMAND

(Millions of sucres at 1970 prices)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
<u>Total supply</u>	<u>39 363</u>	<u>40 328</u>	<u>40 941</u>	<u>43 298</u>	<u>45 066</u>	<u>53 015</u>	<u>66 249</u>	<u>68 740</u>	<u>73 855</u>	<u>79 506</u>
Gross domestic product	31 434	32 701	34 275	35 998	38 507	45 705	53 748	55 560	60 977	64 873
Imports of goods and services	7 929	7 627	6 666	7 300	6 559	7 310	12 501	13 180	12 878	14 633
<u>Total demand</u>	<u>39 363</u>	<u>40 328</u>	<u>40 941</u>	<u>43 298</u>	<u>45 066</u>	<u>53 015</u>	<u>66 249</u>	<u>68 740</u>	<u>73 855</u>	<u>79 506</u>
Final consumption			28 099	29 651	31 365	34 540	38 956	42 887	46 372	49 832
Official entities			4 135	3 981	4 330	5 310	5 622	5 466	6 090	5 963
Households and private non-profit entities			23 964	25 670	27 035	29 230	33 334	37 421	40 283	43 869
Gross capital formation			7 721	8 793	7 371	9 204	12 245	14 299	13 575	16 175
Private sector			5 934	6 373	5 531	6 149	7 868	9 425	8 499	10 910
Public sector			1 787	2 420	1 840	3 055	4 377	4 874	5 076	5 265
Gross fixed capital formation			5 211	7 795	6 892	7 772	9 976	12 485	11 734	14 068
Construction			3 065	4 875	3 544	4 359	5 990	6 284	6 768	7 020
Machinery and equipment			2 001	2 786	2 879	2 967	3 689	5 867	4 748	6 815
Livestock for breeding			145	134	469	446	297	334	218	233
Changes in stocks			2 510	998	479	1 432	2 269	1 814	1 841	2 107
Exports of goods and services	6 026	5 695	5 121	4 854	6 330	9 271	15 048	11 554	13 908	13 499

Source: Central Bank, Cuentas Nacionales del Ecuador, revised in February 1978.

a/ This table is a source for table 38.

Table 83<sup>a/</sup>

## ECUADOR: GROSS DOMESTIC PRODUCT AT CURRENT PRICES AND AT 1970 PRICES

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>b/</sup>
Gross domestic product at current prices (millions of sucres)	20 146	22 851	25 470	27 379	29 921	34 275	40 247	47 102	63 575	93 585	108 246	130 183	153 812
Gross domestic product at 1970 prices (millions of sucres)	25 762	27 833	30 035	31 434	32 701	34 275	35 998	38 507	45 705	53 750	55 560	60 977	64 873
Implicit GDP deflator (1970=100)	78.2	82.1	84.8	87.1	91.5	100.0	111.8	122.3	139.1	174.1	194.8	213.5	237.1
Annual percentage increase in the implicit deflator	-	5.0	3.3	2.7	5.1	9.3	12.8	9.4	13.7	25.2	11.9	9.6	11.1
Consumer price index (1970=100)	80.0	83.0	87.0	90.0	95.0	100.0	109.0	118.0	132.0	163.0	187.0	207.0	234.0
Annual percentage increase in the consumer price index	4.3	3.7	4.8	3.0	5.2	5.6	9.4	7.8	12.3	23.3	14.5	10.5	13.0
Implicit GDP deflator in the United States (1970=100)	81.3	84.0	86.5	90.4	94.9	100.0	105.1	109.4	115.8	127.4	139.3	146.4	151.3

Sources: Central Bank, Cuentas nacionales, revised in February 1978; and International Monetary Fund, International Financial Statistics, various issues.

a/ This table is a source for table 10.

b/ Preliminary figures.



Part Four

TWO STUDIES ON INTERNATIONAL ECONOMIC RELATIONS

MAJOR CHANGES AND TRENDS IN WORLD TRADE IN THE 1970s

I. THE NEW PATTERN OF WORLD EXPORTS

In the 1970s profound changes have taken place in world trade, with sharp fluctuations and a widespread upwards trend in prices. The three years from 1973 to 1975 were the period of greatest dynamism, with the value of world exports rising at extremely high rates, reaching 60% in 1973 and 47% in 1974, and then dropping to only 3% in 1975. In the following two years there was a return to relative normality, but trade did not resume the pattern it possessed at the beginning of the period.

These changes were caused fundamentally by changes in the unit values of exports. The decision of the OPEC member countries to quintuple the price of petroleum between 1972 and 1974 signified a major modification of world trade and also affected the prices of the exports of the other economic groups, a situation which continued until 1975 and profoundly altered world trade flows.

The share of the exports of developing countries - including those belonging to the Organization of Petroleum-Exporting Countries (OPEC) - in total exports rose from an average 18% in 1970-1972 to 26% in 1974, subsequently stabilizing at around 24%. This increase took place at the expense of the industrialized market-economy countries, whose share dropped from 71% to 64% between 1970-1972 and 1977.

This upheaval in the pattern of growth of the value of world exports entailed the transfer of vast resources from the industrialized market economies primarily to the OPEC countries. However, this transfer in turn led to the growth of a vigorous OPEC market for the industrialized countries and for the other developing economies, with a consequent growth of exports from those two groups to the OPEC countries. The so-called petrodollars

/actually had

actually had an expansionary effect on world trade, which may be attributed not only to OPEC but also to the countries which received some of those resources through international bank credits.

Reciprocal trade flows between the industrialized market economies tended to decline in this period, mainly because of the contraction of the North American market for exports from the European Economic Community (EEC) and Japan. On the other hand, European intra-regional trade remained at the same level and Japan slightly increased its exports to Europe.

The relative decline in reciprocal trade among the industrialized market economies was partially offset by the growth of their exports to the periphery, which rose from 18.5% between 1970 and 1972 to 23% in 1977, largely due to the growth of imports by the OPEC countries.

The exports of the developing countries - excluding members of OPEC - to the industrialized market economies dropped from slightly over 70% between 1970 and 1972 to roughly 67% in 1977. On the other hand, their reciprocal trade remained at the same level and their trade with the OPEC countries more than doubled. Latin American intra-regional trade rose from 18% to 20% during that period.

Significant changes may also be found in trade flows. The industrialized market economies have been increasing their relative share of world exports of food and materials, and reducing their corresponding share of manufactures. In contrast, the developing economies are playing a smaller part in the supply of the former type of goods and an increasingly large part in that of manufactures, which reflects their rising level of industrialization. This trend is all the more important if it is considered that world exports of manufactures at constant prices grew at an annual average rate of approximately 7% in the period 1970-1975.

Exports of manufactures are of great importance for the periphery in sustaining their capacity to import. The relative weight of these exports increased from roughly 19% between 1970 and 1972 to almost 28% in 1975 and, according to preliminary estimates, 31% in 1977. This trend has become generalized, and the deep changes which have taken place in the structure of exports of the periphery have occurred equally strongly in the Latin American economies, whose exports of manufactures rose from 13% in 1970-1973 to 23% in 1975.

/With regard

With regard to trade between the industrialized market economies and the developing countries, the importance of exports of manufactures is different for each of the two groups. For the first group, exports of manufactures to the developing countries grew more rapidly than those of their reciprocal trade. On the other hand, in the developing countries exports of manufactures grew more vigorously in trade among themselves than with the industrialized market economies. Two factors help to explain this trend.

Firstly, the recession which hit the central economies from 1975 onwards slowed their rate of growth and consequently their imports.

Secondly, and this point must be stressed for a sound appraisal of the possibilities open to exports from the periphery, an important role was played by the barriers raised by the central economies to protect themselves against the exports of the developing economies. During the present decade, whenever exports of specific manufactures have been successful, particularly in the case of traditional products such as textiles, food and leather manufactures, protectionist trends have appeared. The central countries feared that such exports would affect some of their domestic productive sectors or worsen their unemployment or balance-of-payments problems.

However, the application of defensive measures and the current attempt to reach agreements whereby the developing economies would voluntarily restrict the growth of some exports can represent nothing more than a short-term solution for the problems of the central economies. In fact, any immediate beneficial effect of such measures on employment and the balance of payments in the central countries will certainly be offset in the medium term by the drop in the import capacity of the developing countries.

## II. WORLD EXPORTS

In the course of the 1970s an important change took place in the growth of world exports measured in constant prices. Contrary to what occurred in the previous decade, when the growth rate of world exports was slow but steady, in the current decade the growth rate has fluctuated wildly with a series of rises which culminated in 1977 when the value of world exports was triple that of the 1970-1972 level (see table 1).

/Table 1

Table 1  
WORLD EXPORTS, BY ECONOMIC GROUPS

	Billion dollars						Growth rates					
	1970- 1972	1973	1974	1975	1976	1977 <sup>a/</sup>	1970- 1972 <sup>b/</sup>	1973	1974	1975	1976	1977
World	361	579	849	875	991	1 145	14	60	47	3	13	16
Industrialized market economies	258	408	544	580	645	740	16	58	33	7	11	15
Centrally planned economies	38	58	72	86	95	(112) <sup>c/</sup>	11	53	24	19	10	18
Developing economies	65	112	223	210	251	(280)	14	72	99	-6	20	12
OPEC	24	44	137	111	133	(154)	20	83	211	-19	20	16
America <sup>d/</sup>	15	24	38	37	43	(49)	10	60	58	-	16	14
Africa <sup>e/</sup>	11	12	16	15	16	(16)	12	9	33	-6	6	-
Asia <sup>e/</sup>	18	36	55	56	63	(67)	14	100	53	2	12	6

Sources: United Nations, Yearbook of International Trade Statistics, 1975 and Monthly Bulletin of Statistics, various issues.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Annual average with respect to preceding three-year period.

<sup>c/</sup> The figures in brackets were estimated on the basis of data for the first half of the year.

<sup>d/</sup> Excluding Venezuela.

<sup>e/</sup> Excluding OPEC countries.

The growth rate of the current value of world exports leapt from an average 14% in the three-year period 1970-1972 to 60% in 1973 and 47% in 1974. The following year again witnessed a point of inflexion and their value rose by only 3%. In the last two years the growth rates returned to normal and the levels of the beginning of the period were resumed, with 13% in 1976 and 16% in 1977.

Within this overall pattern, there were differences in the performance of the large trade areas. Whereas the industrial market economies were very close to the overall pattern, with big rises and falls, the centrally planned economies were able to moderate the fluctuations, and were the only trade area which did not register a sharp, widespread drop in the growth rate of exports in 1975. As a group, the developing economies underwent sharper fluctuations in the three-year period 1973-1975 than the other two trade areas. This overall result was heavily influenced by the performance of the OPEC countries, which recorded growth rates in the value of their exports of 83% in 1973, 211% in 1974 and -19% in 1975, with a resumption of normal levels in the final two years of the period under consideration. In the developing economies of the American area, the changes followed the same pattern as in world exports and in the developed market-economy countries. The exports of Asia and Africa also fluctuated sharply in the three years 1973-1975, although with a one-year lag in the case of the African economies, but did not return to normal in the last two years, unlike the other trade areas (see again table 1).

These severe and occasionally abrupt fluctuations in the current value of world exports were primarily due to the considerable rise in their unit value, which almost doubled between 1970 and 1974 (see table 2). This growth was due to the sharp rise in the price of petroleum, which quintupled in that period, and continued to rise in following years although at a slower rate of 6% per year, slightly below the rate of inflation in the central economies.

Table 2

UNIT VALUE INDEXES OF WORLD IMPORTS

(1970 = 100)

	1970- 1972	1973	1974	1975	1976	1977 a/
World	107	140	193	205	211	232
Market economies	107	142	199	213	218	237
Industrialized	106	138	172	192	192	208
Developing	108	158	318	311	330	332
OPEC b/	113	168	593	631	669	740
Excluding petroleum	102	141	192	188	189	202
Latin America	102	140	189	196	207	...
Middle East	109	148	191	198	...	...
"Other" Asia c/	102	147	208	197	...	...
Centrally planned economies d/	106	121	136	146	156	158

Source: United Nations, Monthly Statistical Bulletin, "Special Table B", January 1978.

a/ Preliminary figures.

b/ Index published by International Monetary Fund, International Financial Statistics, March 1978.

c/ Including Indonesia.

d/ With regard to the exactness of this index, see note to Table 3.

/The unit

The unit values of the exports of the developing countries which do not belong to OPEC closely followed the world pattern, with sharp rises of over 30% in 1973 and 1974 and becoming more moderate in the following years, reaching almost 10% in 1977. Nevertheless, the final level reached by the corresponding index in these economies was lower than those of the total and of the industrial market economies. The price indices of the latter rose more slowly than those of the other countries until 1974. Thereafter their growth rate has been higher than that of the developing countries which do not belong to OPEC.

From another standpoint, world exports measured in real value as usual have not varied as sharply as the above. Apart from 1973, when their volume grew by 25% in relation to the average for 1970-1972, rises were moderate and the drop in 1975 was only slightly over 2% (see table 3).

This did not occur, however, in the different country groupings. The volume of exports of the OPEC countries was very unstable and began to stagnate from 1973 onwards. In the other developing economies, the volume of exports fluctuated, with a drop of approximately 15% in the African economies, considering the two extremes of the period in question, and rises in the economies of America (over 45%) and Asia (over 40%), following the widespread reversals of 1974 and 1975.

The volume of exports of the industrialized market economies rose steadily in every year except 1975, when the recession affecting them worsened.

With regard to the centrally planned economies, the available data, which are subject to a wide margin of error, show a steady expansionary trend.

### III. CHANGES IN THE SHARE OF WORLD TRADE OF THE ECONOMIC GROUPS

Owing to the changes described above, the share of world trade of the different economic groups changed significantly. Naturally, the size of the changes depends on the type of analysis made; if current values are used as a base, the changes are many and profound; if constant prices are used, the changes are few and moderate.

/Table 3

Table 3  
WORLD EXPORTS BY ECONOMIC GROUPS

	Billions of 1970 dollars						Growth rates					
	1970- 1972	1973	1974	1975	1976	1977	1970- 1972 <sup>a/</sup>	1973	1974	1975	1976	1977
World	332	415	439	429	473	492	...	10	6	-2	10	4
Industrialized market economies	236	295	315	302	335	344	8	12	7	-4	11	3
Centrally planned economies	36	48	53	59	61	71	...	8	10	11	8	11
Developing economies	60	72	71	68	77	77	9	11	-1	-4	13	-
OPEC	19	22	22	20	20	21	8	11	-	-9	-	5
America <sup>b/</sup>	15	17	19	19	21	22	6	15	12	-	10	5
Africa <sup>c/</sup>	8	9	8	7	7	7	7	8	-10	-12	-	-
Asia <sup>c/</sup>	17	23	23	24	26	24	11	13	-	4	8	-8

**Sources:** United Nations, Yearbook of International Trade Statistics, 1975 and Monthly Bulletin of Statistics, "Special Table B", January 1978.

**Note:** The constant values for the industrialized market economies and the group of developing economies were calculated using the quantum indexes by areas given in the above sources until mid-1977. The sources also provide indexes by continental groups until 1975, and consequently for 1976 and 1977 extrapolations based on partial price indexes were used. The constant values for the centrally planned economies are subject to a wide margin of error. The current values published by the above sources are deflated by an index made up as follows: 40% - unit value index of exports of the industrialized market economies; 60% - a price index increasing by 3% annually. The latter basically reflects the loss of international purchasing power of the currency used as a reference rather than the price changes which may have occurred in the reciprocal trade of the centrally planned economies. As the figures have been rounded off, the values for the developing regional groups do not coincide with the corresponding subtotal.

<sup>a/</sup> Compared with the preceding three-year period. Annual rate.

<sup>b/</sup> Excluding Venezuela.

<sup>c/</sup> Excluding OPEC countries.



It may be seen from the data at current prices in table 1 that the share which changed most was understandably that of the OPEC countries. The value of their exports, which represented 6.6% of the world total on average in the years 1970-1972, soared to a little over 16% in 1974, dropping in the following years to reach a little over 13% at the end of the period under consideration.

The counterpart to this growth in the OPEC share was the decline in that of the industrialized market economies from 71.5% of the world total in the two years 1970-1972 to slightly over 64% in 1974, a percentage which remained more or less constant until 1977. The share of the centrally planned industrial economies also declined, from 10.5% between 1970 and 1972 to 8.5% in 1974, but recovered in subsequent years to reach almost 10% in 1977.

The share accounted for by the world exports of the developing countries excluding OPEC members varied very slightly in the course of the seven years in question, although some changes took place within the group as a whole.

Understandably the African countries, which include many relatively backward economies, have had a declining share of world trade. Their participation dropped steadily from 3% in the years 1970-1972 to 1.4% in 1977. The developing economies of America, excluding Venezuela, have accounted for percentages which fluctuated around 4%, and managed to maintain their share of world trade. Consequently the developing economies of Asia offset the declining share of the African block; their exports rose from 5% of the world total in 1970-1972 to 6% in the following four years, a figure which they maintained with slight variations.

The bigger share of the developing economies in world trade consequently modified the structure of world imports. As may be seen from table 4, the imports of those countries accounted for a little over 18% of the world total as an average for the years 1970-1972, a percentage which rose from 1974 onwards to reach almost 23% by the end of the period.

In addition, the almost eightfold growth in the current values of imports of the OPEC countries caused an appreciable increase in their relative share of world imports, which more than doubled between 1970-1972

Table 4  
WORLD IMPORTS BY ECONOMIC GROUPS

	Billions of dollars						Growth rates					
	1970- 1972	1973	1974	1975	1976	1977 <sup>a/</sup>	1970- 1972	1973	1974	1975	1976	1977
World <sup>b/</sup>	361	579	849	875	991	1 145	49	60	47	3	13	16
Industrialized market economies	254	410	585	576	669	769	40	61	43	-2	16	15
Centrally planned economies	36	56	72	92	98	(110) <sup>c/</sup>	33	56	29	28	7	12
Developing economies	66	105	172	200	217	(262)	47	59	64	16	9	21
OPEC	11	20	36	57	64	(82)	56	82	80	58	12	28
America <sup>d/</sup>	18	28	51	51	52	(58)	38	56	82	-	2	12
Africa <sup>e/</sup>	10	16	23	25	25	(24)	43	60	44	9	-	-4
Asia <sup>e/</sup>	24	38	58	64	73	(83)	71	58	53	10	14	14

Sources: United Nations, Yearbook of International Trade Statistics, 1975 and Monthly Bulletin of Statistics, various issues.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Equals world exports, by definition.

<sup>c/</sup> The figures in brackets are estimates based on data for 6 to 9 months.

<sup>d/</sup> Excluding Venezuela.

<sup>e/</sup> Excluding OPEC countries.

and 1977, rising from 3% to a little over 7% (see table 4). While it has always been a significant market for the other economies, the present share of the OPEC group has turned it into one of the most important markets. By way of comparison, Japan's share stood at 5.6% in 1977, a year in which OPEC imports were also higher than those of the countries of the European Free Trade Association (EFTA).

The share of world imports of the industrialized market economies dropped slightly from a little over 70% in 1970-1972 to slightly over 67% in 1977. As in the case of world exports, this magnitude is the same as the growth of the share of the OPEC countries.

The individual shares of the continental groups of developing economies also changed. In the case of Latin America, it increased until 1974 and dropped thereafter to reach 5% in 1977, virtually the same figure as during the initial period 1970-1972. In the case of Africa, the percentage remained constant at about 6% until 1975, and then dropped sharply to a little over 2% in 1977. The Asian countries, on the other hand followed a rising trend, from 6.6% to 7.2% in their share of world imports between 1970-1972 and 1977 (see again table 4).

#### IV. ORIGIN AND DESTINATION OF EXPORTS

Table 5 shows the origin and destination of the exports of each economic group and the proportion accounted for by trade among the constituent economies and by trade with the other groups during the period under consideration. It may be seen that there are two different types of situation. On the one hand, some economies achieved a higher level of linkage, directing a higher proportion of their exports to their own geographic group. This situation is exemplified by the developing economies. In the other group, there is a trend towards a greater diversity in the destination of exports, which are directed towards different economic groups. This is the case of the industrial economies, whether market or centrally planned.

/Table 5

Table 5  
ORIGIN AND DESTINATION OF WORLD EXPORTS, BY ECONOMIC GROUPS

(Percentages)<sup>a/</sup>

From \ To	Industrialized market economies	Centrally planned economies	Developing economies			
			Total	OPEC	Other	
Industrialized market economies						
1970-1972	77.1	3.8	18.5	3.7	14.8	
1973	76.7	4.5	18.1	4.0	14.1	
1974	73.3	5.2	20.9	5.3	15.6	
1975	69.5	6.0	23.9	8.2	15.7	
1976	71.1	5.5	22.9	8.3	14.6	
1977	71.7	4.9	23.0	8.9	14.1	
Centrally planned economies						
1970-1972	23.8	60.9	15.0	2.2	12.8	
1973	26.9	57.5	15.3	2.2	13.1	
1974	32.5	50.5	16.1	3.1	13.0	
1975	28.1	55.6	15.6	3.7	11.9	
1976	28.9	54.6	15.6	3.6	12.0	
1977	27.9	55.4	16.1	3.5	12.6	
Developing economies						
1970-1972	73.1	5.2	20.2	1.9	18.3	
1973	73.9	4.6	20.1	2.1	18.0	
1974	74.5	3.6	21.2	2.3	18.9	
1975	71.3	4.7	23.0	3.2	19.8	
1976	72.9	4.1	21.9	2.6	19.3	
1977	72.2	4.6	22.1	3.0	19.1	
OPEC						
1970-1972	78.4	1.7	17.9	0.5	17.4	
1973	78.3	1.7	17.6	0.7	16.9	
1974	78.5	1.3	19.4	0.4	19.0	
1975	76.3	1.8	20.9	0.4	20.5	
1976	77.4	1.7	20.0	0.3	19.7	
1977	76.8	1.7	20.3	0.5	19.8	
Other developing economies						
1970-1972	70.1	7.1	21.5	2.8	18.7	
1973	71.1	7.3	21.7	2.9	18.8	
1974	69.3	6.5	23.3	4.8	18.5	
1975	65.7	7.8	25.5	6.4	19.1	
1976	68.0	6.9	24.0	5.2	18.8	
1977	67.1	4.6	24.1	5.8	18.3	

Sources: United Nations, Monthly Bulletin of Statistics, "Special Table C", various issues.

a/ The differences between the percentage data in this and in other tables stem from the inclusion or exclusion of certain export categories (such as the provisioning of ships) because their regions of destination could not be determined.

/1. The

1. The trade of the industrialized economies

During the period under consideration, the industrialized market economies traded a declining proportion of their exports among themselves. The percentage dropped from a little over 77% in 1970-1972 to 69.5% in 1975, when they suffered from a severe recession. In the final two years of the period, their reciprocal trade became more bouyant and its share in world trade rose to almost 71.7% in 1977, as a result of the relative upturn in their economies.

These fluctuations, with a trend towards a decline in reciprocal trade, did not occur symetrically in all the economies forming the group. They were rather the result of the relatively poor performance of the trade flows between the continental groups formed by the industrial economies. Thus, for example, the North American market contracted, from the standpoint of its share either in the export trade of the EEC, which dropped from a little over 8% in 1970-1972 to 5.8% in 1977, or in that of Japan, which dropped more sharply from 31.4% in 1970-1972 to 23.7% in 1977. From the standpoint of the United States, the EEC as a group and Japan in turn reduced their share of United States exports, from a little over 25% to almost 23% from 10% to 8.8%, respectively (see table 5).

While in both cases the declines are relatively small, it should be borne in mind that they occurred despite the devaluations of the dollar against the yen and most European currencies during this period, which should have had a contrary effect on the observed trend.

On the other hand, European intra-regional trade, within both the EEC and EFTA, maintained its importance, which helped to prevent any further decline in the share of world trade accounted for by trade among the industrialized market economies. In other words, the trade relations of the regional European groups did not follow the trend which affected the trade between the two different continental segments of the central countries, and primarily trade among the United States, Japan and Europe as a whole.

/With regard

With regard to Japanese trade, the proportion of its exports to the EEC economies did not vary, while the proportion directed to EFTA rose slightly in the last two years. The exports of Australia and New Zealand and of Canada to Japan also followed an upwards trend (see table 6). The causes of these deviations from the overall pattern for the industrialized market economies are perfectly clear: the search for new markets or the need to secure supplies of commodities on the part of Japan.

The relative contraction of their own markets in the industrial economies increased the importance of trade with the periphery, which absorbed 18.5% of their exports in 1970-1972 and 23% in 1977 (see again table 5). This increase was certainly due to the growth of the share of the OPEC countries which rose from 3.7% to 8.9% over the period.

The reciprocal trade of the centrally planned economies also declined while their exports to the industrialized market economies grew from almost 24% in 1970-1972 to almost 28% in 1977, as did those to the developing economies, basically the OPEC countries, which rose from 2.2% in 1970-1972 to about 3.5% in subsequent years (see again table 5).

## 2. The trade of the developing economies

The changes in the direction of the trade of the developing economies, although minor, are of interest. Without considering the distortions caused by the price rises in 1973 and 1974, and comparing 1970-1972 with 1977, it may be seen that their exports to the industrialized market economies dropped from roughly 73% to 72% of the total, and exports to the centrally planned economies from 5.2% to 4.6%. In contrast, the relative importance of their reciprocal trade rose from approximately 20% to 22% (see again table 5).

The share of the exports of OPEC countries directed to the industrialized market economies dropped from 78.4% on average during the two years 1970-1972 to 76.8% in 1977. This was offset, however, by the rise in sales to other developing economies from 17.4% to 19.8% in the same period. OPEC trade with the centrally planned economies remained constant at about 1.7%.

/Table 6

Table 6

TRADE AMONG THE CHIEF INDUSTRIALIZED MARKET ECONOMIES

(Percentage of corresponding total exports)

From \ To	EEC	EFTA	United States	Canada	Japan	Australia/ New Zealand
<b>EEC</b>						
1970-1972	50.9	12.3	8.3	1.4	1.2	1.4
1973	52.6	12.2	7.4	1.1	1.3	1.1
1974	50.6	11.9	6.9	1.1	1.2	1.4
1975	49.3	11.2	5.5	1.1	0.9	1.1
1976	51.7	11.5	5.6	0.9	0.9	1.0
1977a/	51.7	11.4	5.8	0.9	0.9	1.0
<b>EFTA</b>						
1970-1972	48.5	18.8	7.0	1.3	1.3	1.0
1973	48.0	18.4	6.5	1.2	1.9	0.9
1974	45.8	19.2	5.7	1.1	1.6	1.1
1975	44.4	18.7	5.2	1.2	1.2	0.9
1976	46.6	17.7	5.0	1.1	1.3	0.9
1977a/	47.6	18.0	5.2	0.9	1.2	1.0
<b>United States</b>						
1970-1972	25.1	3.7	-	22.9	10.0	2.4
1973	23.3	3.2	-	21.1	11.6	2.4
1974	22.2	3.3	-	20.1	10.9	2.7
1975	21.1	3.2	-	20.1	8.9	2.1
1976	22.1	3.1	-	21.0	8.8	2.3
1977a/	22.9	3.2	-	22.0	8.8	2.1
<b>Canada</b>						
1970-1972	14.2	1.6	67.9	-	4.6	1.2
1973	12.5	1.4	68.1	-	7.1	1.0
1974	12.6	1.6	66.5	-	6.9	1.2
1975	12.5	1.2	65.7	-	6.4	0.9
1976	12.0	1.1	67.6	-	6.4	1.1
1977	10.7	1.2	69.8	-	6.2	1.2
<b>Japan</b>						
1970-1972	10.2	3.0	31.4	3.5	-	3.4
1973	11.9	3.6	25.9	2.7	-	3.9
1974	10.7	2.8	23.3	2.9	-	4.5
1975	10.2	2.8	20.2	2.1	-	3.8
1976	10.8	3.2	23.7	2.3	-	4.0
1977a/	10.9	3.5	23.7	2.1	-	3.6
<b>Australia/New Zealand</b>						
1970-1972	25.7	0.8	13.3	2.9	24.7	5.8
1973	22.2	1.1	13.0	2.7	29.1	6.3
1974	18.3	0.8	10.0	3.1	26.6	7.2
1975	17.3	1.3	10.0	2.9	27.4	6.0
1976	17.5	1.3	9.8	2.6	30.2	6.1
1977a/	18.6	0.8	8.9	2.0	29.6	6.4

Source: United Nations, Monthly Bulletin of Statistics, various issues.

a/ First half.

/The developing

The developing countries which do not belong to OPEC had to face a relative contraction of their markets in the industrialized market economies during this period. Their exports to the latter dropped from a little over 70% in 1970-1972 to little over 67% in 1977 and their exports to the centrally planned economies from approximately 7% to 4.6% over the same period. On the other hand, sales to OPEC recorded a relative rise from 2.8% to 5.8% in the course of the period.

The reciprocal trade of the developing economies, excluding OPEC, showed almost no variation throughout the period, with a constant proportion of 19%. This was fundamentally the result of the unfavourable performance of the trade of the African countries. Factors which it would be out of place to comment upon here have affected all their foreign trade, thus influencing the trade of the group of developing economies excluding OPEC members.

Table 7 presents data for the developing countries of the American area and its principal component, the Latin American Free Trade Association (LAFTA). It may be seen that the intra-regional trade of this group has grown faster than its total exports. In 1970-1972, the former represented a little over 18%, and reached almost 20% in 1976. In addition, the reciprocal trade of LAFTA rose from 10.8% to 13.5% in the period, and its sales to the developing countries of the American area increased their relative share from 19.5% to 24.1% between 1970-1972 and 1976.

In addition, both groups increased the proportion of their sales to the Middle East (excluding Israel) and Africa, while reducing that to the Far East.

#### V. CHANGES IN PARTICIPATION BY TYPE OF PRODUCTS

The shares of the economic groups present some significant differences from the standpoint of the types of products classified according to the conventional method (SITC),<sup>1/</sup> and particularly taking into account the volumes traded.

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<sup>1/</sup> Standard International Trade Classification, United Nations publication, Sales No: 61.XVII.6.



Table 7

ORIGIN AND DESTINATION OF EXPORTS FROM DEVELOPING COUNTRIES OF  
AMERICA AND LAFTA

(Percentage of annual total)

From \ To	America	LAFTA	Middle East	Far East	Africa
<u>America</u>					
1970-1972	18.3	8.5	0.3	1.1	0.7
1973	16.9	8.5	0.8	1.7	1.1
1974	20.0	9.0	0.9	0.7	1.6
1975	19.7	9.5	1.7	0.7	2.6
1976	19.7	9.9	1.0	0.6	1.5
<u>LAFTA</u>					
1970-1972	19.5	10.8	0.3	1.1	0.6
1973	18.6	10.9	1.0	2.1	1.0
1974	23.7	12.0	1.2	0.8	1.7
1975	25.2	13.3	1.6	0.7	1.9
1976	24.1	13.5	1.1	0.7	1.5

Source: United Nations, Monthly Bulletin of Statistics, various issues.

/It may

It may be seen from table 8, which was prepared on the basis of 1970 prices and has virtually definitive data, that the global exports of the developing economies represent a slightly decreasing percentage of the world total: from 19.3% in 1970-1972 to 18.4% in 1977.

What is interesting, however, which may perhaps become a novel feature of the 1970s, is that the central economies increased their share in world sales of food and raw materials whereas the developing countries increased their share of the total trade of manufactures.

As may be seen in table 8, the share of the periphery is falling in the first two groups (SITC 0-1, food, and 2-4, raw materials), more markedly than total exports. For the first item the drop is from 33.1% in 1970-1972 to 29.2% in 1975; the drop is similar in the second group, and the corresponding figure for the two groups in 1977 is only 26%. Conversely, the industrialized market economies raised their share in the trade of these goods from two-thirds to three-quarters in the course of the period.

As was to be expected, during the present decade the share of the developing economies in the trade of fuels increased: from 72% in 1970-1972 to 74% in 1975, a percentage which has since remained constant. It should be recalled that these figures do not take into account the price effect which would considerably increase the corresponding percentages after 1973-1974.<sup>2/</sup>

Exports of manufactures are shown in the last column in table 8. The share of the developing economies was only 7.5% in 1970-1972. By way of reference it may be pointed out that it was 7% in 1960 and 1970, i.e., it did not change significantly between the beginning and the end of the past decade. On the other hand, it rose slowly but steadily between 1971 and 1974 and in 1975 (the final year as stated above, for which definitive world statistics are available) it reached 9%. The estimates for 1976 and 1977 indicate that this share has continued to rise and stood at roughly 9.6% in 1977. Although this percentage represents a considerable advance over the levels of the 1960s, it remains small.

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<sup>2/</sup> As was pointed out above, the percentage accounted for by OPEC exports rose from 6.6% of the world total in 1970-1972 to 16% in 1974 (see table 1).

Table 8  
SHARE OF THE DEVELOPING COUNTRIES IN WORLD TRADE, IN  
REAL TERMS, BY SITC SECTIONS

(Percentage of the corresponding world total)

	Total	Food	Raw materials	Fuels	Manufactures
	0-9	0-1	2-4	3	5-8
1970-1972	19.3	33.1	32.6	71.9	7.5
1973	19.4	31.9	31.2	72.1	8.3
1974	18.2	28.7	31.2	73.3	8.3
1975	18.5	29.2	30.5	73.5	9.0
1976	18.8	28.4		74.0	9.1
1977	18.4	26.0		74.0	9.6

Sources: 1970-1975: United Nations, Monthly Bulletin of Statistics, "Special Table F" June 1977.

1976-1977: For the total and fuels, see the note to table 3. With regard to manufactures, use was made of the Bulletin, "Special Table D", December 1977, for the industrialized economies, and of an index made up on the basis of imports of some purchasing countries and a sample of imports, for the developing economies.

In order to weigh up this process properly, it should be borne in mind that world exports of manufactures grew at the very high rate of 7.1% annually during the period 1970-1975.

A more detailed appraisal of the question must take account of the importance of manufactures within the exports of the developing economies and also of Latin America, as well as the links between those economies and the industrialized market economies. These aspects will be considered in the following sections.

## VI. CHANGES IN THE EXPORT STRUCTURE OF THE PERIPHERY

At the beginning of the 1970s the most important export class of the developing economies was fuels (SITC 3), which in 1970-1972 accounted for 38.3% of their total exports, at current values, and 34.6% at 1970 prices. Understandably, since 1973 the first figure has risen enormously, reaching 61.3% in 1975, the last year for which calculations at current prices can be made (see table 9). This very abrupt change naturally had decreased the relative importance of the other export products. Thus raw materials (SITC 2-4), including exports of non-ferrous metals, accounted for 20.6% of total exports in 1970-1972, but only 12.9% in 1975. The manufactures group, excluding the value of non-ferrous metal, dropped from 19.6% to 13.3%. Among the components of this group, machinery and equipment (SITC 7) remained constant at 3.4% in 1970-1972 as well as in 1975.

At 1970 prices, the relative share of fuels did not change significantly, and tends to be increasingly small, in contrast to the results of the calculation at current prices (see table 10). As stated above, it was 34.6% in 1970-1972. It then dropped to 31.7% in 1975, and, by extrapolation, was 32.4% in 1977. Similar changes are found if other items are examined from the standpoint of the volume of exports.

Thus, food (SITC 0-1) dropped from 22.5% in 1970-1972 to 20.1% in 1975. Raw materials, including non-ferrous metals, also had a declining share of the total, from 23.5% to 20.2% in the course of the period. Taken as a whole, their contribution to exports of the developing economies continued to decline in 1976 and 1977, when it stood at a mere 36.6%.

Table 9

DEVELOPING ECONOMIES: RELATIVE BREAKDOWN OF EXPORTS

(Percentages of the basis of current values)

	Total	Food	Raw materials	Fuels	Manufactures
	0-9	0-1	2-4a/ 2-4a/	3	5-8b/ 5-8b/
1970-1972	100.0	21.5	20.6	38.3	19.6
1973	100.0	18.4	24.5	40.9	16.2
1974	100.0	11.6	15.1	61.4	11.9
1975	100.0	12.5	12.9	61.3	13.3

Source: United Nations, Monthly Bulletin of Statistics, "Special Table C", various issues.

a/ Includes SITC 68, "Non-ferrous metals".

b/ Excludes SITC 68, "Non-ferrous metals".

Table 10

DEVELOPING ECONOMIES: RELATIVE BREAKDOWN OF EXPORTS

(Percentages on the basis of 1970 prices)

	Total	Foods	Raw materials	Fuels	Manufactures
	0-9	0-1	2-4 <sup>a/</sup>	3	5-8 <sup>b/</sup>
1970-1972	100.0	22.5	23.5	34.6	19.3
1973	100.0	20.7	21.3	34.4	23.2
1974	100.0	18.0	22.2	34.1	25.2
1975	100.0	20.1	20.2	31.7	27.8
1976	100.0	-----	38.9 -----	31.9	29.2
1977	100.0	-----	36.6 -----	32.4	31.0

Source: United Nations, Monthly Bulletin of Statistics, "Special Table C", various issues.

a/ Includes SITC 68, "Non-ferrous metals".

b/ Excludes SITC 68, "Non-ferrous metals".

/The manufactures

The manufactures component (SITC 5-8, excluding 68 non-ferrous metals) significantly increased its relative share in the exports of the developing economies. In 1970-1972 it represented slightly under one-fifth (19.3%); in each of the following years it rose by at least two points and in 1975 it was 27.8%. As has been stressed repeatedly, the statistics up to 1975 are entirely reliable. For the following two years, information was available on some major national economies, on the basis of which it is estimated that the relative share of manufactures continued to grow and in 1977 represented 31% of the total exports of the developing economies.

As may be seen, in barely seven years the structure of exports of the periphery changed profoundly, and this occurred in Latin America too. As in the case of the developing economies as a whole, in Latin America some countries are more industrialized and have a larger share of exports of manufactures. These include Argentina, Brazil, Colombia and Mexico and, in Central America, El Salvador. However, most economies of the region were affected to a varying degree. In Haiti, for example, exports of manufactures (SITC 5-8) represented 40% of the total value of exports in the fiscal year 1975-1976;<sup>3/</sup> in Chile, Peru and Venezuela this percentage fluctuated in 1977 between 25% and 35% in real terms. It may therefore be assumed that the process is relatively widespread and certainly involves other areas of the Third World.

The changes which took place in Latin America in 1975 may be examined in table 11. It is immediately apparent that the relative contribution of food exports is unstable, with a downwards trend similar to that of raw materials (SITC 2 and 4 plus non-ferrous metals); this trend is very pronounced in the case of fuels. With regard to manufactures (SITC 5 to 8), excluding non-ferrous metals because of their weight in this sub-total, their share was 13.2% in 1970-1972 and had risen to 23.4% only three years later. The progress made over this period may be compared with that of the developing economies as a whole, which, however, occurred over five years (see again table 10).

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<sup>3/</sup> Essential oils, kid leather, textiles and certain sporting goods have become relatively important in the exports of manufactures from Haiti. These goods are produced both by small workshops and by factories, working on their own account or through international subcontracting.

Table 11

LATIN AMERICA (20 COUNTRIES): BREAKDOWN OF REAL EXPORTS, BY SITC SECTIONS

	Total	Food	Raw materials	Fuels	Manufactures
	0-9	0-1	2-4a/	3	5-8b/
1970-1972	100.0	49.8	19.0	18.0	13.2
1973	100.0	47.5	18.0	16.6	17.8
1974	100.0	45.0	18.8	14.5	21.7
1975	100.0	48.3	17.5	10.8	23.4

Source: Specially tabulated for CEPAL by the Statistical Office of the United Nations.

a/ Includes SITC 68, "Non-ferrous metals".

b/ Excludes SITC 68, "Non-ferrous metals".



## VII. CHANGES IN THE PATTERN OF TRADE BETWEEN THE DEVELOPING ECONOMIES AND THE INDUSTRIALIZED MARKET ECONOMIES

These transformations in the trade flows have naturally entailed changes of varying size and importance in the pattern of trade between the main economic groups. The available data are sufficient merely to indicate some changes which particularly affect the trade flows between the developing economies and the industrialized market economies as well as within those groups. It appears from the relevant figures set forth in table 12 that there are two outstanding features in the pattern of trade which has prevailed in the first half of the 1970s. These are the growing and already appreciable importance of the peripheral markets for the central economies, and the importance of exports of manufactures for the Third World and for Latin America in particular.

Table 12 presents data on the real growth of exports by SITC sections for the industrialized market economies and for the developing economies.<sup>4/</sup> It also shows the proportion, by SITC sections, which each of the two economic group directs to the other and to itself, and the corresponding growth rate. By way of illustration, it also gives the growth rate of total exports of the sections. Only the years 1970 and 1975 are used, for which reliable data are provided by the United Nations Monthly Bulletin of Statistics.

Beginning with the totals, it may be seen that the markets of the developing economies recorded the greatest growth, both in their reciprocal trade and in their trade with the industrialized economies. In the first case the growth rate in 1970-1975 was 8.4% and in the second 9.8%. On the other hand, the markets of the industrialized economies were comparatively sluggish in their reciprocal sales, as is shown by their growth rate of 4.4%, and poor (2.8%) for sales from the developing economies. Thus during this five year period the latter increased their role as a market for the central countries (absorbing 20% of their exports in 1970 and 24% in 1975) and for themselves (22% and 26%, respectively).

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<sup>4/</sup> Regrettably no such information exists for the centrally planned economies.

Table 12

EXPORTS BY SITC SECTIONS OF THE INDUSTRIALIZED AND OF THE DEVELOPING ECONOMIES

(Percentages)

	Relative importance as market				Growth rates 1970-1975		
	Industrialized economies		Developing economies		Industrialized economies	Developing economies	Total
	1970	1975	1970	1975			
<u>0-1</u>							
<u>Food</u>							
Industrialized economies	81	82	19	18	5.8	4.4	5.7
Developing economies	82	73	18	27	-1.0	10.8	1.4
<u>2-4</u>							
<u>Raw materials</u>							
Raw materials	90	87	10	13	1.1	6.5	1.7
Developing economies	82	78	18	22	-0.3	4.5	0.4
<u>5-8</u>							
<u>Manufactures</u>							
Industrialized economies	79	74	21	26	4.7	10.7	6.7
(section 7)	(77)	(70)	(25)	(30)	(5.1)	(13.0)	(7.1)
Developing economies	74	69	26	31	9.7	14.9	11.2
<u>0-9</u>							
<u>Total</u>							
Industrialized economies	80	76	20	24	4.4	9.8	5.5
Developing economies	78	74	22	26	2.8	8.4	4.0

Source: United Nations, Monthly Bulletin of Statistics, "Special Table D", December 1977.

/These trends

These trends may be explained by looking at the type of product. The only heading in which sales between industrialized economies grew more rapidly than the sales to the developing economies is that comprising the SITC sections 0 and 1 (food). The opposite occurs in all other cases. Thus for sections 2 and 4 (raw materials) the growth rate of reciprocal exports of the industrialized economies was 1.1% whereas that of their sales to the developing economies was 6.5%.

It is unnecessary to stress the importance of exports of manufactures for the industrialized economies. Suffice it to say they represent approximately three-quarters of their total sales. Exports to the developing economies grew at an annual rate of 10.7% whereas exports among themselves grew at only 4.7%. If this last rate is compared with that of total exports of manufactures, it may be seen that sales to the developing economies were 2 percentage points higher every year. The same was true of exports of equipment and machinery (SITC 7), shown in the following row, in brackets, in table 12.

To continue with the analysis, it may be pointed out that in 1970 the developing economies absorbed 21% of the manufactures and 23% of the machinery and equipment exported by the industrialized market economies. These proportions rose to 26% and 30% respectively in 1975. In both cases the market constituted by the developing economies can no longer be described as marginal. In 1975 conditions, exports of manufactures of the industrialized economies would rise by 1% (and their total exports by 0.75%) for every rise of 3.8% in the purchase of such goods by the developing countries. This percentage would be 3.3% in the case of machinery and equipment alone. It should be added that, in the conditions prevailing in 1970, this 1% variation would have called for rises of 4.8% and 4.3%, respectively, in the purchases of the developing countries. Thus the latter have become markets whose performance is important for the industrialized market economies.

It was stated above that the reciprocal exports of the developing economies grew more than their exports to the central countries. It may be seen from table 10 that their total exports in 1970-1975 grew at an annual

/rate of

rate of 4%, whereas their reciprocal sales rose by 8.4% and sales to the industrialized economies by only 2.8% per year. This pattern is invariable for all types of goods. It should be noted that in the case of food and raw materials, the growth rate of trade with the industrialized economies was negative, or in other words, those market contracted. In contrast, in those export headings the developing economies become very important as their own market.

This is even clearer in the case of manufactures. This component of their reciprocal trade grew by 14.9% annually over the five years. In other words, it doubled in real terms. At current prices, it rose from 3,400 million dollars in 1970 to 11,500 million in 1975. The latter figure may be broken down into 1,600 million for chemical products (SITC 5), 3,200 million for machinery and equipment (SITC 7) and 6,600 million for miscellaneous manufactures (SITC 6 and 8).

With regard to their trade with the industrialized market economies, a distinction may be made between import and export flows. Purchases of raw materials by the periphery (see table 12) grew by 6.5% annually, a rate perhaps determined by the high content of inputs for manufacturing industry. Needless to say, the largest supplies are for machinery and equipment, which is of the utmost importance for investment in those countries and constitutes a traditional component of this trade.

The same is true of exports of non-manufactured products and of fuels from the developing economies to the industrialized markets. On the other hand, as was stated above, negative rates occurred in sales of food and raw materials.

The developing economies were able to increase their sales of manufactures to the central economies by 9.7% annually between 1970 and 1975. In other words, the volume of exports rose by 60% between those two years. Excluding petroleum, this trade amounted to one-third of the value of their exports in 1975, which means that for the non-oil-exporting developing countries these sales have become vitally important for their current import capacity.

/It should

It should be stressed that the equipment and machinery (SITC 7) exported to the industrialized economies by the periphery had a value of only 3,500 million dollars in 1975. This figure is little more than 5% of the inverse flow, and consequently suggests not so much competition as complementarity, which results from the links described above and from which the broad possibilities which still exist may be inferred.



## TRENDS AND CHANGES IN THE INVESTMENT OF TRANSNATIONAL CORPORATIONS IN THE DEVELOPING COUNTRIES AND PARTICULARLY IN LATIN AMERICA

### Introduction

There can be no need to stress the importance of the role played by the transnational corporations in world economic development from the standpoint both of the industrialized and of the developing countries. Few subjects have received more attention in recent years, as evidenced by the voluminous bibliography and the growing number of institutions engaged in analysing them, including, of course, the United Nations Centre on Transnational Corporations (CTC). For its part, CEPAL some years ago began research on the question and published some viewpoints in the Economic Survey of Latin America, 1971.1/

CEPAL has pursued this work in recent years 2/ and now feels that it would be useful to present some general remarks on the trends and changes in the direct investment of the transnational corporations in the developing world and particularly in the American region, i.e., Latin America and the Caribbean. The information is far from complete and only extends as far as 1975; but it may well contain, in summary form, most of the current knowledge about the salient aspects of the question.

Part I contains data on the evolution of the accumulated direct investment of the main supplier countries. Investment originating in the United States and investment from the other capital-exporting centres are considered separately, with an emphasis on investment in the developing countries of the American region.

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1/ See Economic Survey of Latin America, 1971, chapter 5 (E/CN.12/935).

2/ Various working documents were published in 1977 by the CEPAL/CTC Joint Unit, including: Transnational Corporations in Export-Oriented Primary Commodities: A Study of Relative Bargaining Positions and Distribution of Gains, (this document also includes case studies on tin, bauxite and bananas); The transnational Corporations among the One Thousand Largest Enterprises in Brazil and, finally, studies on transnational corporations in economic integration (Programming in the engineering and petrochemical sectors in the Andean Pact countries and complementarity agreements in the LAFTA countries.

Part II deals with the rate of investment and its distribution among the main groups of countries and among individual countries, concluding with a study of the distribution by economic sectors of United States investment, since comparable data is not available for the other main investor countries.

I. THE DYNAMICS OF DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES  
AND CHANGES IN ITS ORIGIN AND DESTINATION 3/

Direct investment in the developing countries increased vigorously in the first part of the 1970s, at a higher rate than in the late 1960s. Thus its accumulated value rose from about 35 billion dollars in 1967 to over 76 billion in 1975. The average annual growth rate throughout the period from 1968 to 1975 was about 10%,4/ but the rate was higher in the 1970s than between 1968 and 1970 (see table 1). Broadly speaking, according to data for 1967,5/ accumulated investment in the developing countries represented 31% of total investment, and thus the bulk of investment (69%) was accumulated in the central economies. Furthermore, by 1975 this proportion had risen to 74%, with a corresponding decline in the share of the developing countries.

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3/ The assumption is made in this study that direct foreign investment is basically that of transnational corporations. This assumption appears reasonable since in the case of the United States more than 70% of foreign investment belongs to 250 or 300 such corporations; in the United Kingdom, over 80% is accounted for by 165 transnationals, and, in West Germany, 82 corporations carry out about 70% of such investment (see The Multinational Corporations in World Development, United Nations, ST/ECA/190, New York, 1973, pp. 5 and 7).

4/ Taking into account world inflation in the period and the rise in prices of capital goods in the industrialized countries, the growth rate in real terms would be roughly 5% (half the current value). This relationship is also true of the growth rates compared below in the distribution by regions and countries.

5/ United Nations Centre on Transnational Corporations, Transnational Corporations in World Development: A Re-examination (E/C.10/38; sales N° E.78.II.A.5), table III-33.



Table 1  
DAC-OECD COUNTRIES<sup>a/</sup>: DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES

Investor country	Accumulated value (millions of dollars)			Average annual growth rate			Percentage structure		
	1967	1970	1975	1968- 1975	1968- 1970	1971- 1975	1967	1970	1975
United States	17 448	22 071	39 973	10.9	8.2	12.6	50.0	50.0	52.0
Canada	1 477	1 658	2 528	6.9	3.9	8.8	4.0	4.0	3.0
Western Europe	15 400	19 139	29 683	8.5	7.5	9.2	44.0	43.0	39.0
United Kingdom	6 804	7 714	10 553	5.6	4.3	6.5	19.0	17.0	14.0
Ireland	1 789	2 227	3 236	7.7	7.6	7.8	5.0	5.0	4.0
Federal Republic of Germany	1 198	1 941	5 204	20.2	17.5	21.8	3.0	4.0	7.0
France	2 980	3 832	5 033	6.8	8.7	5.6	8.0	9.0	7.0
Switzerland	695	877	1 432	9.5	8.1	10.3	2.0	2.0	2.0
Italy	879	1 245	2 235	12.4	12.3	12.4	3.0	3.0	3.0
Belgium	692	765	1 018	4.9	3.4	5.9	2.0	2.0	1.0
Other European countries <sup>b/</sup>	363	538	972	13.1	14.0	12.5	1.0	1.0	1.0
Japan	702	1 198	3 853	23.7	19.5	26.3	2.0	3.0	5.0
Australia and New Zealand	101	305	727	28.0	44.5	19.0	-	1.0	1.0
<u>Total</u>	<u>35 128</u>	<u>44 371</u>	<u>76 764</u>	<u>10.3</u>	<u>8.1</u>	<u>11.5</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: OECD-DAC, Stock of private direct investments by DAC countries in developing countries (end 1967), Paris 1972.

OECD, Development Cooperation, 1977 Review.

<sup>a/</sup> Development Assistance Committee Organization for Economic Cooperation and Development.

<sup>b/</sup> Austria, Denmark, Norway, Finland and Sweden.

1. The shares of the main investors in the developing countries

The origin of the investment did not change in the course of the decade covered by the data, although specific changes are worth mentioning. In the first place, the United States maintained its position as supplier of half the capital flow (see table 1). This share fluctuated a little during the period, however. Towards the end of the 1960s other sources of investment, such as Western Europe and Japan, began to increase significantly their capital exports, a trend which came to a peak in 1972, when the flow from Western Europe was equal to that from the United States (at about 2 billion dollars each) and the other major industrialized countries invested about 500 million dollars, compared with a little over 100 million in 1967.<sup>6/</sup> There can be little doubt that these shifts were largely the result of the different degrees of dynamism in the development of those countries or areas during the period.

The picture began to change in the course of the first half of the 1970s, and it seems reasonable to suppose that the so-called oil crisis had a major effect, in the sense that it affected the United States less than other important central economies. Hence in 1975, for example, the United States share had risen to 52% of total accumulated direct investment in the developing countries, whereas Western Europe's share had dropped to 39%, in comparison with 43% in 1970.

These variations did not prevent countries such as the Federal Republic of Germany and Japan from continuing to increase their investment in the developing countries at a much more vigorous rate than the United States transnationals. The accumulated direct investment of the German transnational corporations grew at an annual rate of almost 22% in the period 1971-1975, and that of the Japanese corporations at an even higher rate of 26% compared

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6/ See OECD, Development Co-operation, 1975 Review and 1976 Review. The net annual flow of direct investment corresponds roughly to the increase in the accumulated investment during the period in question. (For further details, see "La presencia de las empresas transnacionales en la industria manufacturera de América Latina", CEPAL, IDE.129, November 1975, introduction to the statistical annex, p. 77.)

with 13% for the United States corporations. Nevertheless, the shares of Western Germany and Japan in the total only amounted to 7% and 5%, respectively, in 1975. On the other hand, the accumulated investment from the United Kingdom grew at a rate of only 6% annually and thus its share declined from 17% in 1970 to 14% in 1975. The same occurred, on a lesser scale, in the case of French investment (see table 1).

## 2. Origin and destination of investment in developing countries

The distribution of investment among the geographical groups of developing countries shows some interesting changes in the period 1967-1975 (see table 2).

Looking first at origin, it may be seen that in 1975 United States investment accounted for majority shares both in the developing countries of the American area (South America and the Caribbean) and in the relatively less developed European countries.<sup>7/</sup> In the first case it declined to some extent between 1967 and 1975, while rising in the second. On the other hand, in the case of the other groups it is significant that the majority of investment in Asia and Africa stems from other OECD countries (essentially Western Europe and Japan).

An examination of the destination of direct investment makes up the other side of the picture of investment distribution. As may be seen, the bulk of United States investment went to the developing countries of the American area, although the proportion dropped from 68 to 66% between 1967 and 1975. The other OECD countries have a much lower weight in the region, although it rose from 37% to 40% during the period.

As was to be expected, a significant proportion of the investment of this second groups of central economies was directed towards Africa and Asia, the relative share of Africa declining and that of Asia increasing.

In sum, while the United States continued to be the main source of capital for the developing countries of the American area, the latter continued to be the main destination of United States capital. In both cases, however, there was a decline in the high share of the United States and a corresponding increase in that of the other central economies.

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<sup>7/</sup> This group includes Austria, Cyprus, Spain, Finland, Greece, Greenland, Ireland, Iceland, Malta, Portugal, Turkey and Yugoslavia.

Table 2

DAC-OECD COUNTRIES: ACCUMULATED DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES, BY REGIONS

Country of destination \ Country of origin	Total OECD		United States		Other OECD	
	1967	1975	1967	1975	1967	1975
<u>Percentage breakdown by country of origin</u>						
Europe	100.0	100.0	30.0a/	55.0a/	70.0	45.0
Africa	100.0	100.0	21.0	22.0	79.0	78.0
Asia	100.0	100.0	36.0	33.0	64.0	67.0
Middle East	100.0	...	58.0	...	42.0	...
Developing countries of the American area	100.0	100.0	64.0	59.0	36.0	41.0
<u>Total</u>	<u>100.0</u>	<u>100.0b/</u>	<u>50.0</u>	<u>47.0b/</u>	<u>50.0</u>	<u>53.0b/</u>
<u>Percentage breakdown by country of destination</u>						
Europe	6.0	9.0	3.0a/	10.0a/	8.0	8.0
Africa	19.0	15.0	8.0	7.0	29.0	22.0
Asia	14.0	24.0	10.0	17.0	18.0	30.0
Middle East	9.0	...	10.0	...	7.0	...
Developing countries of the American area	52.0	52.0	68.0	66.0	37.0	40.0
<u>Total</u>	<u>100.0</u>	<u>100.0b/</u>	<u>100.0</u>	<u>100.0b/</u>	<u>100.0</u>	<u>100.0b/</u>
<u>Average annual growth rates, 1968-1975</u>						
Europe		15.6		24.7a/		9.5
Africa		6.7		7.0		6.6
Asia		16.8		15.5		17.5
Middle East		...		...		...
Developing countries of the American area		9.3		8.2		11.3
<u>Total</u>		<u>10.7b/</u>		<u>10.1b/</u>		<u>11.3b/</u>

Sources: Calculated for the CEPAL/CTC Joint Unit on the basis of official data furnished by OECD (Stock of private direct investment by DAC countries in developing countries, end 1967, Paris 1972; and Development Cooperation, 1977 Review) and the United States (United States Department of Commerce, Survey of Current Business, August 1977. The latter data differ slightly from the DAC/OECD data on the total stock of United States investment which appear in table 1).

a/ Includes Austria, Cyprus, Spain, Finland, Greece, Greenland, Ireland, Iceland, Malta, Portugal, Turkey and Yugoslavia.

b/ The total does not include the Middle East since due to major methodological changes the total for 1975 is not comparable to the total for 1967.

/II. TRENDS

## II. TRENDS AND DISTRIBUTION OF DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

This sizeable share of the developing countries of the American region hides many differences among them as well as varying trends in the rate of capital flows. Table 3 presents the available data on the question.

A general view shows, in the first place, that accumulated direct investment more than doubled between 1967 and 1975, growing at an annual rate of 9%. Two very distinct phases may be distinguished in this performance, with growth rates of 6.7% in the first place (1968-1971) and 12% in the second (1972-1975). It should be noted that this contrast holds true for all the groups into which the region has been divided.

Without prejudice to this overall feature, it may easily be seen that the flow rate of investment varies strikingly when the total is broken down. It might appear surprising that the group of "other territories of the developing American region", particularly the Bahamas, Barbados, and Bermuda, recorded the highest growth rates, particularly in the second period (32.4% per year), which raised their share of the total from a little over 8% in 1967 to 19% in 1975. This is mostly investment of a financial nature or designed to establish or extend the tourism infrastructure in some of these territories, as suggested by the high figures for the Netherlands Antilles, the Bahamas and Bermuda in the group.

### 1. Argentina, Brazil and Mexico

Starting with the situation of the largest countries, Argentina, Brazil and Mexico, the salient features of the group would appear to be: (a) the high growth rate in the second period under consideration, almost 13% per year; (b) the rise in their share of total investment from 40 to 42%; (c) the high and increasing share of Brazil, which alone accounted for more than 28% of the total in 1975; (d) the very slow growth of investment in Argentina.

/Table 3

Table 3

DAC-OECD COUNTRIES: ACCUMULATED DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

	Millions of dollars at end of each year		Average annual growth rate			Percentage structure	
	1967	1975	1968- 1975	1968- 1971	1972- 1975	1967	1975
Argentina	1 821	2 000	1.2	5.3	-2.8	9.9	5.3
Brazil	3 728	9 100	11.8	8.1	15.6	20.2	24.2
Mexico	1 787	4 800	13.1	8.2	18.3	9.7	12.8
<u>Total larger countries</u>	<u>7 336</u>	<u>15 900</u>	<u>10.1</u>	<u>7.5</u>	<u>12.9</u>	<u>39.8</u>	<u>42.3</u>
Bolivia	144	100	-4.5	-16.5	9.3	0.8	0.3
Colombia	728	1 200	6.4	5.4	7.4	3.9	3.2
Chile	963	400	-10.4	-3.1	-17.2	5.2	1.1
Ecuador	82	500	25.3	38.3	13.6	0.4	1.3
Peru	782	1 700	10.2	2.1	18.9	4.2	4.5
Venezuela	3 495	4 000	1.7	1.4	2.0	18.9	10.6
<u>Total Andean area countries</u>	<u>6 194</u>	<u>7 900</u>	<u>3.1</u>	<u>1.9</u>	<u>4.3</u>	<u>33.6</u>	<u>21.0</u>
Paraguay	35	70	9.0	6.5	11.7	0.2	0.2
Uruguay	60	250	19.5	7.5	32.9	0.3	0.7
<u>Total LAFTA countries</u>	<u>13 625</u>	<u>24 120</u>	<u>7.4</u>	<u>5.0</u>	<u>9.8</u>	<u>73.9</u>	<u>64.2</u>
Costa Rica	136	250	7.9	5.7	10.1	0.7	0.7
El Salvador	77	130	6.8	5.9	7.6	0.4	0.3
Guatemala	146	260	7.5	6.1	8.9	0.8	0.7
Honduras	169	230	3.9	4.3	3.5	0.9	0.6
Nicaragua	73	90	2.6	3.9	1.4	0.4	0.2
<u>Total CACM countries</u>	<u>601</u>	<u>960</u>	<u>6.0</u>	<u>5.2</u>	<u>6.8</u>	<u>3.3</u>	<u>2.5</u>
Haiti	36	70	8.7	8.6	8.8	0.2	0.2
Panama	830	2 250	13.3	18.7	8.1	4.5	6.0
Dominican Republic	158	350	10.4	15.4	5.7	0.9	0.9
<u>Total 19 countries of Latin America</u>	<u>15 250</u>	<u>27 750</u>	<u>7.8</u>	<u>6.1</u>	<u>9.5</u>	<u>82.7</u>	<u>73.8</u>
Guyana	189	180	-0.6	-8.1	7.4	1.0	0.5
Jamaica	671	970	4.7	10.5	-0.8	3.6	2.6
Trinidad and Tobago	687	1 200	7.2	9.8	4.7	3.7	3.2
Suriname	100	330	16.1	4.7	28.8	0.5	0.8
<u>Total 23 countries of American area</u>	<u>16 897</u>	<u>30 430</u>	<u>7.6</u>	<u>6.3</u>	<u>9.0</u>	<u>91.6</u>	<u>80.9</u>
Belize	28	70	12.1	15.6	8.8	0.2	0.2
Netherlands Antilles	382	1 400	17.6	11.9	23.6	2.1	3.7
Bahamas	1 109	950	22.6	10.4	36.0	6.0	15.0
Barbados		160					
Bermudas		3 800					
Others a/		740					
Guadalupe	26	50	8.5	5.3	11.8	0.1	0.1
Martinique		-					
French Guyana	7	25	17.2	9.3	25.7	-	0.1
<u>Other developing countries and territories of the American area</u>	<u>1 552</u>	<u>7 195</u>	<u>21.1</u>	<u>10.8</u>	<u>32.4</u>	<u>8.4</u>	<u>19.1</u>
<u>Total developing countries of the American area</u>	<u>18 449</u>	<u>37 625</u>	<u>9.3</u>	<u>6.7</u>	<u>12.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: OECD-DAC, Stock of private direct investments by DAC countries in developing countries (end 1967, Paris 1972, OECD, Development Cooperation, 1977 Review.

OECD-DAC, Stock of private investment by member countries of the Development Assistance Committee in developing countries (end 1971 and end 1972), Paris 1973 and 1974.

a/ Includes the West Indies Associated States and other Caribbean territories.

/Although it

Although it has different bases and a different source of data, covering only 23 countries of the region, table 4 provides a broader view by, taking into account net annual flows of total direct investment between 1970 and 1975. From this standpoint, some trends and changes singled out in the preceding paragraph began even clearer. Naturally, the difference between trends in Argentina and Brazil becomes sharper, and Mexico's more stable position, within its moderate growth, is once again apparent. The trend towards concentration in the larger countries is all the clearer, in this case only Brazil and Mexico, which received 71% of the net investment flow in 1970-1975.

## 2. Economies of the Andean Pact 8/

The economies associated in the Andean Pact show a relatively low growth rate of accumulated direct investment and consequently a decline in their share in the regional total. The growth rate amounted to a mere 3.1% annually over the period as a whole, and their share dropped from almost 34% to 21% (see table 3).

The group is by no means uniform, however, and therefore the situation of the individual countries is worth examining. The situations of the oil exporting countries, Venezuela and Ecuador, are both very typical and at the same time dissimilar. In Venezuela, which accounted for over half the investment in the Andean region in 1967, the sum of investment between 1967 and 1975 remained practically at a standstill, which led a decline in its share in the overall total of the developing American region from about 19% to less than 11%. On the other hand, in Ecuador investment went up sixfold, which represents growth rates of over 25% a year; and its share in the regional total rose from 0.4% in 1967 to 1.3% in 1975.

It is virtually unnecessary to recall the decisive influence of oil investment and the corresponding policies upon these different performances. Taken into account the complementary data of table 4, it may be seen that the net investment flows were generally negative for Venezuela in each of the years in question, with a reduction amounting to 216 million dollars for the period 1970-1975. The opposite occurred in Ecuador, where accumulated investment increased over this period by almost 650 million dollars.

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8/ Including Chile, which was still a member of the group in the period under consideration.

Table 4

DEVELOPING COUNTRIES OF THE AMERICAN AREA: NET FLOWS OF TOTAL DIRECT FOREIGN INVESTMENT, BY COUNTRIES

	Millions of dollars			Percentage structure		
	1970	1975	1970- 1975 <sup>a/</sup>	1970	1975	1970- 1975
Argentina	11.0	-	50.8	1	-	1
Brazil	196.0	1 006.5	3 826.0	23	32	41
Mexico	323.0	609.5	2 674.0	37	20	29
<u>Larger countries</u>	<u>530.0</u>	<u>1 616.0</u>	<u>6 550.9</u>	<u>61</u>	<u>52</u>	<u>71</u>
Bolivia	-75.9	53.4	-0.7	-9	2	-
Colombia	43.0	40.1	209.3	5	1	2
Chile	-79.0	49.8	-657.8	-9	2	-7
Ecuador	88.6	189.3	649.4	10	6	7
Peru	-70.0	315.7	339.6	-8	10	4
Venezuela	-23.0	354.6	-261.3	-2	11	-3
<u>Andean area countries</u>	<u>-116.3</u>	<u>1 002.9</u>	<u>278.5</u>	<u>-13</u>	<u>32</u>	<u>3</u>
Paraguay	3.8	14.2	57.9	-	1	1
Uruguay	-	-	-	-	-	-
<u>Total LAFTA countries</u>	<u>417.5</u>	<u>2 633.1</u>	<u>6 887.3</u>	<u>48</u>	<u>85</u>	<u>75</u>
Costa Rica	26.4	69.0	227.2	3	2	2
El Salvador	3.7	13.1	56.5	-	-	1
Guatemala	29.4	80.0	236.0	3	3	3
Honduras	8.4	10.4	34.6	1	-	-
Nicaragua	15.0	10.9	76.2	2	-	1
<u>Total CACM countries</u>	<u>82.9</u>	<u>183.4</u>	<u>630.5</u>	<u>9</u>	<u>6</u>	<u>7</u>
Haiti	2.8	2.7	28.0	-	-	-
Panama	33.4	10.2	148.8	4	-	1
Dominican Republic	71.6	50.5	343.6	8	2	4
Barbados	8.6	22.9	74.0	1	1	1
Guyana	9.0	0.8	-33.8	1	-	-
Jamaica	162.1	-1.8	536.3	19	-	6
Trinidad and Tobago	83.2	191.3	614.4	10	6	6
<u>Total 23 developing countries of the American area</u>	<u>871.1</u>	<u>3 093.1</u>	<u>9 229.1</u>	<u>100</u>	<u>100</u>	<u>100</u>

Sources: CEPAL, on the basis of data from the Balance of Payments Yearbook, IMF.

a/ Accumulated values.

/Bolivia, another



Bolivia, another country where oil production is important, shows appreciable variations over the period. Accumulated investment declined, but there were two very different phases within the overall trend; a sharp decline between 1967 and 1971, and a phase of rapid growth between 1972-1975, when the growth rate exceeded 9%.

The trend in Peru had similar fluctuations. While accumulated investment more than doubled over the period, the annual growth rates swung from between 2% in the period 1968-1971 and almost 19% over the next four years. Its share in the overall total remained more or less the same at 4.3% (see table 3).

For well-known reasons, such as nationalization of the large-scale copper mining industry, the Chilean experience stands out within this group by a drop in the amount of accumulated investment and by negative growth rates over the period, even during the most dynamic period for the rest of the region (1974-1975). One striking result is the drop in its share in the total from a little over 5% in 1967 - surprisingly high in view of the size of its economy - to only 1% in 1975.

The data on Colombia display one of the most stable growth patterns, higher than that of the Andean Group but lower than that for the whole area covered in table 3, which has grown very steadily throughout the period. It may be seen from the net investment flow (see table 4) that between 1970 and 1975 Colombia had a positive balance of 200 million dollars.

To complete this overview of the countries belonging to LAFTA - which includes the two groups examined above - Uruguay and Paraguay had a very similar weight (0.2%) within the total of accumulated investment in 1967, although the share of Uruguay rose between 1967 and 1975. Investment grew rapidly in Paraguay between 1972 and 1975, at a rate of about 12% annually, while in Uruguay over this period there was a sizeable rise of nearly 33%. Looking at net flows, a dynamic trend may be found in Paraguay in the earlier 1970s (see table 4).

3. Countries of the Central American Common Market and other countries of the Latin American area

Accumulated investment in these economies as a group rose at a lower rate than the general average, although it strengthened in almost all of them between 1971 and 1975. Costa Rica was chiefly responsible for this, with a growth rate of over 10% per year during that period (see table 3).

It appears from table 4 on net flows that growth was considerable in both Costa Rica and Guatemala between 1970 and 1975. Nicaragua and El Salvador also show sizeable flows in the course of the period.

In Panama, which does not belong to the Central American Common Market, accumulated investment grew quite rapidly, more so between 1968 and 1971 than subsequently, unlike the general trend.

Finally, in Haiti a significant growth rate of accumulated investment (nearly 9% annually in the period 1971-1975) was combined with moderate rises in the net flow in absolute values.

4. Some Caribbean countries

Mention was made above of some small Caribbean countries where investment had grown particularly fast. In the case of the group comprising Guyana, Jamaica, Trinidad and Tobago and Suriname, it may easily be seen that the nature of their basic export resources and the corresponding national policies has had a depressive influence on the growth of investment.

This is particularly clear in the case of Guyana, where accumulated investment remained practically at a standstill between 1967 and 1975, although with inverted trends in the two sub-periods in question. During the first it had a negative growth rate (8%); in the second it increased by over 7% annually.

Jamaica and Trinidad and Tobago followed similar trends, in terms both of amount and periods, and were characterized by a relatively rapid growth in the value of accumulated foreign investment and the pattern of the net flow in the 1970s. The same was true of Barbados, although on a more moderate scale.

### III. DISTRIBUTION OF ACCUMULATED DIRECT INVESTMENT BY ORIGIN AND DESTINATION IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

In table 5 data from the preceding series have been reorganized to present an overall view of the origin of accumulated investment, distinguishing between United States investment and that of the other OECD countries, and its distribution among the developing countries of the American area.

Looking first at the origin of the capital, it may be seen that with a few exceptions - such as Brazil, Argentina and the "other developing countries of the American area" - the prevailing trend was for the United States' share to decline. This trend was particularly strong in Colombia, Chile, Peru, Venezuela and the Central American countries. However, as may be seen in the second section of the table, the causes of this overall trend may be very different. In some economies, such as those of Venezuela or Chile, the principal reason was the stagnation or reduction of the stock of capital from the United States for well-known reasons. In others, such as Colombia, Peru or the countries of the Central American Common Market, it was due to sharply different rates in the growth of the two main groups of investors. Finally, in some cases, such as Brazil, the growth of investment from both sources was very dynamic, although more so in one or the other case.

Looking now at the way in which the investment was distributed among the host countries, and distinguishing between the capital exporters as mentioned in section II, it may be seen that the changes primarily affected the United States, which doubled its share in economies such as Brazil but at the same time lost ground more sharply in others such as Venezuela, Chile and Argentina. The other OECD countries, on the other hand, increased the relative importance of their investment in Mexico, Colombia, Peru and the Central American countries, while losing ground in the case of Argentina and Brazil and remaining constant in Chile and Venezuela.

Table 5

## LATIN AMERICA: ACCUMULATED DIRECT INVESTMENT FROM DAC/OECD COUNTRIES, BY COUNTRIES OF THE REGION

Country of origin Country of destination	Millions of dollars						Average annual growth rate (1968-1975)			Percentage structure					
	1967			1975						1967			1975		
	DAC/ OECD	United States	Other DAC/ OECD	DAC/ OECD	United States	Other DAC/ OECD	DAC/ OECD	United States	Other DAC/ OECD	DAC/ OECD	United States	Other DAC/ OECD	DAC/ OECD	United States	Other DAC/ OECD
Argentina	1 821	1 017	804	2 000	1 154	846	1.2	1.6	0.6	10	9	12	5	5	5
Brazil	3 728	1 328	2 400	9 100	4 579	4 521	11.8	16.7	8.2	20	11	36	24	21	29
Mexico	1 787	1 364	423	4 800	3 200	1 600	13.1	11.2	18.1	10	12	6	13	14	10
Colombia	728	627	101	1 200	648	552	6.4	0.4	23.6	4	5	2	3	3	4
Chile	963	879	84	400	174	226	-10.4	-18.3	13.2	5	7	1	1	1	1
Peru	782	660	122	1 700	1 221	479	10.2	8.0	18.6	4	6	2	4	6	3
Venezuela	3 495	2 555	940	4 000	1 873	2 127	1.7	-3.8	10.7	19	22	14	11	8	14
Panama	830	754	76	2 250	1 907	343	13.3	12.3	20.7	4	6	1	6	9	2
CACM countries <u>a/</u>	601	501	100	960	704	256	6.0	4.3	12.5	3	4	1	3	3	2
Other Latin American countries <u>b/</u>	515	379	136	1 340	934	406	12.7	11.9	14.6	3	3	2	4	4	3
<u>Total 19 countries of Latin America</u>	<u>15 250</u>	<u>10 064</u>	<u>5 186</u>	<u>27 750</u>	<u>16 394</u>	<u>11 356</u>	<u>7.8</u>	<u>6.3</u>	<u>10.3</u>	<u>83</u>	<u>85</u>	<u>78</u>	<u>74</u>	<u>74</u>	<u>73</u>
Other developing countries of the American area	3 199	1 713	1 486	9 875	5 707	4 168	15.1	16.2	13.8	17	15	22	26	26	27
<u>Total developing countries of the American area</u>	<u>18 449</u>	<u>11 777</u>	<u>6 672</u>	<u>37 625</u>	<u>22 101</u>	<u>15 524</u>	<u>9.3</u>	<u>8.2</u>	<u>11.1</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Sources: OECD-DAC, Stock of private direct investments by DAC countries in developing countries (end 1967), Paris 1972.

OECD, Development Cooperation, 1977 Review.

United States, Department of Commerce, Survey of Current Business, August 1977.

a/ Includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

b/ Includes Bolivia, Ecuador, Paraguay, Uruguay, Haiti and the Dominican Republic.

#### IV. THE ALLOCATION OF INVESTMENT BY ECONOMIC SECTORS: THE CASE OF THE UNITED STATES CORPORATIONS

The distribution of foreign investment among different activities is of very great importance, particularly when it changes significantly in a period such as the one under consideration. Regrettably, information is not yet available covering all the main investors and is only available on the transnational corporations of the United States. It should be recalled that they account for about 40% of direct investment in the developing countries, and a even higher percentage in the case of the developing countries of the American area (see table 2).

##### 1. Sectoral investment by the United States - distribution in the world and by main areas

At the most general level, it may be seen that accumulated foreign investment from the United States grew at an average rate of nearly 10% annually between 1967 and 1975. This rate is much lower in the case of the mining sector (a mere 3.6%) and significantly higher (14.2%) for the "other sectors", influenced by dynamic financial investment (see table 6).

In addition, it should be borne in mind that in 1975 73% of total investment by the United States, and 81% of industrial investment, took place in other industrialized countries and that the proportion going to the developing countries of the American area declined in the period under consideration from 20 to 18%. Thus the relative unimportance of the area increased, despite the fact that in absolute terms accumulated investment almost doubled (from 11,800 to 22,100 million dollars). Naturally, this overall change involves significant differences between particular countries.

##### (a) Sectoral distribution: petroleum and mining activities

An examination of the distribution by sectors shows that petroleum and mining investment declined in relative importance.

Table 6

ACCUMULATED DIRECT INVESTMENT FROM THE UNITED STATES,  
BY MAIN ECONOMIC SECTORS AND AREAS OF DESTINATION

	World <sup>a/</sup>		Developed countries		Developing countries			
	1967	1975	1967	1975	Total		America	
					1967	1975	1967	1975
<b>Economic sectors</b> (billions of dollars)								
<u>Total</u>	<u>59.5</u>	<u>124.2</u>	<u>39.7</u>	<u>90.9</u>	<u>17.4</u>	<u>26.2</u>	<u>11.8</u>	<u>22.1</u>
Petroleum	17.4	26.2	9.5	20.3	6.6	2.5 <sup>b/</sup>	3.3	3.3
Mining	4.9	6.5	2.8	4.4	2.0	2.2	1.7	1.5
Manufacturing	24.2	55.9	19.4	45.4	4.7	10.5	3.6	8.6
Commerce	5.0	12.5	3.3	9.0	1.7	3.0	1.3	2.3
Other sectors	8.0	23.1	4.6	11.8	2.4	8.0	1.8	6.4
Finance	...	14.6	...	8.0	0.2	4.9	0.1	4.6
<b>Average annual growth rate, 1968-1975</b>								
<u>Total</u>		<u>9.6</u>		<u>10.9</u>		<u>5.2</u>		<u>8.2</u>
Petroleum		5.2		9.9		-11.4		-
Mining		3.6		5.8		1.2		-1.6
Manufacturing		11.0		11.2		10.6		11.5
Commerce		12.1		13.4		7.3		7.4
Other sectors		14.2		12.5		16.2		17.2
Finance		...		...		49.1		61.4
<b>Regions</b> (percentage of United States total)								
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>67.0</u>	<u>73.0</u>	<u>29.0</u>	<u>21.0</u>	<u>20.0</u>	<u>18.0</u>
Petroleum	100.0	100.0	55.0	78.0	38.0	10.0	19.0	13.0
Mining	100.0	100.0	58.0	67.0	42.0	33.0	35.0	23.0
Manufacturing	100.0	100.0	80.0	81.0	20.0	19.0	15.0	15.0
Commerce	100.0	100.0	67.0	72.0	33.0	24.0	26.0	18.0
Other sectors	100.0	100.0	57.0	51.0	30.0	35.0	23.0	28.0
Finance	...	100.0	...	55.0	...	34.0	...	31.0
<b>Sectors</b> (percentage of area total)								
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Petroleum	29.0	21.0	24.0	22.0	38.0	10.0	28.0	15.0
Mining	8.0	5.0	7.0	5.0	12.0	8.0	15.0	7.0
Manufacturing	41.0	45.0	49.0	50.0	27.0	40.0	31.0	39.0
Commerce	8.0	10.0	8.0	10.0	9.0	11.0	11.0	10.0
Other sectors	14.0	19.0	12.0	13.0	14.0	31.0	15.0	29.0
Finance	...	12.0	...	9.0	2.0	19.0	1.0	21.0

Sources: OECD-DAC, Stock of private direct investments by DAC countries in developing countries (end 1967), Paris 1972, United States, Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1976 and 1977.

a/ The world totals also include international and non-localised investment.

b/ This figure includes a negative amount of accumulated direct investment in the Middle East.

/In 1967,

In 1967, investment in the petroleum industry amounted to 17,400 million dollars, of which 6,600 went to the developing countries and 3,300 million to the Latin American area, i.e., 38% and 19% of the world total respectively. By the mid-1970s this investment had more than doubled in the industrialized countries (9,500 to 20,300 million dollars, respectively) remained at a standstill in the developing countries of the American area (3,300 million dollars) and dropped sharply in the other developing regions, due to disinvestment in the Middle East. The importance of the developing countries of the American area for the transnational oil corporations, measured in terms of their share of the world investment of the corporations, has dropped from 19% in 1967 to 13% in 1975, virtually all of which was absorbed by the share of the industrialized countries (see table 6).

An even greater change took place in the period in question in the case of the investment of transnational corporations in the mining industry; in the developing countries of Latin America, this investment declined even in absolute terms (from 1,700 to 1,500 million dollars) while a slight rise in value occurred in Africa and Asia (from 300 to 700 million dollars, respectively) and the bulk of investment was concentrated in the industrialized countries themselves (rising from 2,800 to 4,400 million dollars).

The increased concentration of petroleum and mining investment of the transnational corporations in the industrialized countries and the corresponding relative decline in its importance in the developing countries, particularly in the American region, appears to reflect two main facts: first, the tendency of the developing countries to nationalize their basic resources (or possibly set up mixed corporations); and secondly, the strategic reaction of the transnational corporations towards diversification and relocation of their investment in the processing and marketing of basic commodities, orienting themselves primarily towards the industrialized countries.

(b) Manufacturing, commercial and financial activities

Manufacturing and commercial activities, on the other hand, continued during this period to be a fertile area for the investment of United States transnational corporations. Thus in 1975 over half their total investment was in these two sectors. Here again growth continued to be uneven. The

/investment was

investment was concentrated still further in industrialized countries, particularly in the case of commercial activities. Thus the share of those countries grew from 67 to 72% in that sector, and from 80 to 81% in the case of manufacturing. The developing countries of Latin America maintained a constant share in the world investment of manufacturing transnationals (15%) and had a declining share in their commercial investment (from 26 to 18%). In any event manufacturing investment in the developing countries of the American area is increasing faster than in the other developing areas (see table 6).

Finally, an important change occurred in the so-called "other sectors" of the activities of transnational corporations, and chiefly in the financial sector. The "other sectors" group is the only one where the investment of the United States transnational corporations grew more in the developing countries, and especially Latin America, than in the industrialized countries (16.2%, 17.2% and 12.5%, respectively).<sup>9/</sup>

The financial sector, which corresponds primarily to the activities of transnational banks, stands out in the period under consideration for its annual average growth of almost 50% in the developing countries and of 61% in Latin America. Consequently, this sector has become relatively the most important for United States investors <sup>10/</sup> in comparison with other economic sectors of the developing countries and particularly of Latin America. In 1975, 34% of the world financial investment of the corporations took place in the developing countries and primarily in the Latin American countries (31% of the world total). This important change is obviously linked to the increasing indebtedness of the developing countries and the increasingly

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<sup>9/</sup> For the year 1967 data is only available, in the case of the industrialized countries, on the "other sectors" and not on the financial sector in particular.

<sup>10/</sup> It may be assumed that much of the growth of financial investment corresponds to the recycling of 'petro-dollars' bearing in mind the concentration of this investment in the open capital markets ("tax havens") of countries such as Panama, the Bahamas, and Bermuda /see below, point 2(b)7.



important role of the transnational banks in the credits granted to Latin American countries.<sup>11/</sup>

The changes in the growth of the United States transnational corporations are reflected in the structure of their accumulated direct investment in the developing countries of the American area (see table 6). In 1967, mining activities and manufacturing and commercial activities each accounted for an equal share (5 billion dollars, or 43% each of the regional total) of the total direct investment of the United States in Latin America (11,800 million dollars) whereas the other sectors accounted for only 1,800 million dollars (i.e., 15% of the regional total), of which the financial sector had an insignificant share.

This breakdown changed substantially by the mid-1970s: mining investment remained constant at 5 billion dollars and its share in the regional total declined from 43 to 22%. Manufacturing and commercial investment rose to the high level of almost 11 billion dollars, almost half of the total United States investment in the developing countries of the American area, and finally financial investment, previously scarce, reached almost the same level as investment in mining activities (4,600 million dollars, or 21% of the regional total).

This tendency of the manufacturing transnationals and the transnational banks to increase their importance in the region might well be even more pronounced if the growth of European and Japanese corporations is also taken into account, but data is not available on them. In any event, the probability of this hypothesis is substantiated by the fact that in the period under consideration those corporations were, broadly speaking, more dynamic than the United States corporations.

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<sup>11/</sup> The share of private banks in the total external credits of Latin America grows from one third to two thirds between 1965 and 1970. The CEPAL/CTC unit is carrying out a study on transnational banking in Peru.

## 2. Sectoral distribution among the countries of the region

The sectoral distribution of the accumulated direct investment of the United States among the countries of the region is analysed in table 7. As may be seen, the regional trends discussed in the preceding section resulted from a variety of situations in the different Latin American countries.

### (a) The extractive sectors

The United States transnational oil corporations in 1967 had three-quarters of their total investment in the region in three Latin American countries: Venezuela (54%), Colombia (10%) and Argentina (8%). In the period 1967-1975, heavy disinvestment occurred in each of these countries as a consequence of nationalization in the industry. The average annual growth rate was -11.3% in Venezuela, -18.7% in Colombia and -6.8% in Argentina, with a result that the relative importance of these three countries as a whole for the transnational oil corporations declined from 72% in 1967 to only 27% in 1975.

Turning to the question of the countries to which the transnational oil corporations shifted their investment, it may be seen that the biggest movement was to the Caribbean area (primarily "other developing countries of the American area" in table 7) where oil investment rose between 1967 and 1975 from 500 to 1,200 million dollars, or at an annual average rate of 11.7%. The importance of this area, measured by its share in the total, rose from 16 to 38%. More detailed information is unavailable on the different countries of the subregion.

Another global figure concerns a group of relatively less developed countries (Bolivia, Ecuador, Paraguay, Uruguay, Haiti and the Dominican Republic) whose share in the regional total of United States oil investment rose from 3 to 10%, occupying third place in the region (after the Caribbean area and Venezuela) with a total of about 350 million dollars. This change corresponds primarily to the growth of the oil industry in Ecuador and Bolivia.

Table 7

THE UNITED STATES IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA,  
ECONOMIC SECTORS AND COUNTRIES OF DESTINATION

Peru		Venezuela		Panama		CACM countries		Other Latin American countries		19 Latin American countries		Other developing countries of Latin America		Total developing countries of Latin America	
1967	1975	1967	1975	1967	1975	1967	1975	1967	1975	1967	1975	1967	1975	1967	1975
660	1 221	2 555	1 873	754	1 907	501	704	379	934	10 064	16 394	1 713	5 707	11 777	22 101
35	246	1 793	687	111	125	80	122	92	346a/	2 812	2 066	518	1 258	3 330	3 324
397	700	80	11a/	19	1	28	27	30	19	1 290	1 015	430	461	1 720	1 476
98	166	311	668	33	122	79	199	96	127	3 361	8 023	266	540	3 627	8 563
54	62	253	268	326	542	32	50	20	45	1 192	2 029	94	292	1 286	2 321
76	47	118	239a/	265	1 117	282	306	141	397a/	1 409	3 261	405	3 156	1 814	6 417
3	10	30	145	25	718	4	49	7	209a/	124	1 720	11	2 862	135	4 582
	8.0		-3.8		12.3		4.3		11.9		6.3		16.2		8.2
	27.6		-11.3		1.5		5.4		18.0		-3.8		11.7		-
	7.3		-22.0		-30.8		-0.4		-5.5		-2.9		0.9		-1.9
	6.8		10.0		17.8		12.2		3.6		11.5		9.2		11.3
	1.7		0.7		6.6		5.7		10.7		6.9		15.2		7.7
	-5.8		9.2		19.7		1.0		13.8		11.1		29.3		17.1
	16.2		21.8		52.1		36.8		52.9		38.9		100.4		55.4
6	6	22	8	6	9	4	3	2	4	85	74	15	26	100	100
1	7	54	21	3	4	2	4	3	10	84	62	16	38	100	100
23	47	5	1	1	-	2	2	1	1	75	69	25	31	100	100
3	2	9	8	1	1	2	2	2	2	93	94	7	6	100	100
4	3	20	12	25	23	2	2	1	2	93	87	7	13	100	100
4	1	7	4	15	17	16	5	9	6	78	51	22	49	100	100
2	-	22	3	19	16	3	1	5	5	92	38	8	62	100	100
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
5	20	70	37	15	7	16	17	24	37	28	13	30	22	28	15
60	57	3	1	3	-	6	4	8	2	13	6	25	8	15	7
15	14	12	35	4	6	16	28	25	14	33	49	16	10	31	39
8	5	10	14	43	28	6	7	5	5	12	12	5	5	11	10
12	4	5	13	35	59	56	44	37	42	14	20	24	55	15	29
1	1	1	8	3	39	1	7	2	21	1	10	1	50	1	21

end 1967), Paris 1972,  
business, August 1976 and 1977.

Among the remaining countries, oil investment in Peru showed the highest growth (28%), reaching a total of 246 million dollars in 1975. Its importance for the United States transnational corporations rose from 1% to 7% in the period under consideration. From the Peruvian standpoint, i.e., the share of this sector in total United States investment, there was an increase from 5 to 20% between 1967 and 1975; in 1975 it was bigger than that of manufacturing and commercial activities together (19%).

Finally, oil investment in Brazil grew at an average annual rate of almost 18%, increasing the relative importance of the country for the corporations from 2 to 9%.

In brief, it seems clear that the oil corporations reacted to the limiting of their activities in Venezuela, Argentina, Colombia by relocating their investment, primarily in countries which offered fresh possibilities of expansion of production and with which they were able to reach suitable agreements (Ecuador, Peru and Bolivia) and towards countries with large-scale processing activities (the Caribbean, Brazil).

As was pointed out above, United States investment in the mining sector shrank in the period from 1,700 to 1,500 million dollars, while at the same time its importance for the region dropped from 15 to 7% of total investment. The greatest disinvestment occurred in Chile (from 516 to 12 million dollars), Venezuela (from 80 to 11) and Mexico (from 122 to 80). Thus the nationalization of copper in Chile, of iron ore in Venezuela and the promotion of mixed corporations in Mexico led to a decline in the relative importance of those three countries from 42% in 1967 to only 8% in 1975.

Meanwhile the corporations increased their investment in Peru, from 400 to 700 million dollars, in Brazil, from 68 to 130 million dollars; and only slightly in the important area of the Caribbean, from 430 to 460 million dollars. The importance of these countries for the corporations increased, in the period under consideration, especially in the case of Peru, from 23 to 47%; of the Caribbean area, from 25 to 31%; and of Brazil, from 4 to 9% and for the three countries as a whole from 52 to 87%.

/These recent

These recent changes in the direct investment of the mining corporation are the result of complex events in the various countries of the region, such as, for example, the nationalization of the copper mines in Chile and of some of them in Peru, of the iron mines in Venezuela and of bauxite in Guyana. The process was also influenced by the development of mixed corporations in Mexico and the sectoral diversification tending towards the processing of the metals, the development of new deposits with the co-operation of the transnational corporations, etc.

Looking at extractive activities as a whole, it may be seen that their share in total direct investment by the United States dropped substantially in almost all areas and countries, with countries like Mexico, Chile, Brazil, Colombia and Argentina accounting for a share of between 3 and 21% in 1975. Venezuela (38%), the Caribbean countries (30%) and the Central American Common Market (21%) had a larger but still declining share in the same year. On the other hand, over the same period an important increase took place in Peru (from 65 to 77% of the country total) and in the group of relatively less developed countries of the region (from 32 to 39%).

(b) The manufacturing, commercial and financial sectors

The expansion of the manufacturing transnational corporations of the United States was concentrated in the two countries with big, dynamic markets, Brazil and Mexico. Whereas in 1967 these two countries accounted for half the manufacturing investment of the United States in the region, by the mid-1970s their share had risen to almost two-thirds (65%). Meanwhile, the share of Argentina dropped from 19 to 9%. In 1975, these three countries, as well as Colombia, were characterized by the great importance of manufacturing activities in total United States investment in their economies (from 59% for Colombia to 76% for Mexico). For the countries of the Central American Common Market, Chile and Venezuela the corresponding figures were 28, 28 and 35% whereas in Peru, the relatively less developed countries, the Caribbean countries and Panama the figures varied between only 14 and 6%.

/The transnational

The transnational corporations engaged in commercial activities were concentrated primarily in Brazil, Mexico and Panama. The share of these three countries rose from 53 to 60% between 1967 and 1975. Looking at this investment from the standpoint of the receiving countries, it may be seen that in 1975 such investment was relatively more important in Panama, Chile, Mexico, Venezuela, Colombia and Argentina (28, 16, 15, 14, 10 and 8% of total United States investment in those countries, respectively).

As was indicated above, the financial sector, chiefly the transnational banks, were strikingly dynamic during this period (annual growth of 55.4%). This growth was concentrated primarily in the Caribbean area, where financial investment doubled almost every year, reaching 2,900 million dollars in 1975. Since there was no detailed information on what occurred in the different countries, it may only be assumed that this took place mainly in the Bahamas and Bermuda as tax havens for financial capital. This hypothesis seems confirmed in the similar case of Panama, where financial investment rose from 25 to 718 million dollars between 1967 and 1975, in which year the country accounted for 16% of the regional total. A large increase also occurred in Brazil (from 30 to 357 million dollars in the period) although the country's share in the regional total dropped from 22 to 8% in the period. In the relatively less developed countries financial investment rose from 7 to 209 million dollars and in Colombia from 2 to 95 million dollars.

From the standpoint of the receiving countries, the financial sector in 1975 was most important in the Caribbean countries (50% of total investment in the area), in Panama, (39%), in the relatively less developed countries (31%) and in Colombia (15%).

### 3. The structure of industrial investment

Table 8 presents data on the distribution by countries and by sub-sectors of United States manufacturing investment in the developing countries of the American area in 1975.

Table 8

DEVELOPING COUNTRIES OF THE AMERICAN AREA: PERCENTAGE BREAKDOWN OF ACCUMULATED DIRECT INVESTMENT  
IN MANUFACTURING INDUSTRY, ORIGINATING FROM THE UNITED STATES, 1975

	By countries of destination					By economic subsectors				
	Total	Products			Other sub-sectors	Total	Products			Other sub-sectors
		Food	Chemical	Metal manufactures and machinery			Food	Chemical	Metal manufactures and machinery	
Argentina	9	6	8	10	9	100	5	24	47	24
Brazil	36	24	24	45	38	100	5	17	53	25
Mexico	29	31	33	27	26	100	9	29	40	22
Colombia	4	3	6	2	7	100	6	35	20	39
Chile	1	-	1a/	-	1	100	-	47a/	6a/	47
Peru	2	6	1	1a/	2a/	100	24	17	28a/	31a/
Venezuela	8	9	8	6	11	100	10	25	31	34
Panama	1	1	5	-	1a/	100	6	81	5a/	8a/
CACM countries	2	10	3	1a/	2	100	35	30	15a/	20
Other Latin America countries	2	6	1a/	1	1a/	100	36	21a/	21	22a/
<u>Total 19 Latin American countries</u>	<u>94</u>	<u>96</u>	<u>90</u>	<u>93a/</u>	<u>98a/</u>	<u>100</u>	<u>9</u>	<u>24</u>	<u>42a/</u>	<u>25a/</u>
Other developing countries of the American area	6	4	10	7a/	2a/	100	6	39	48a/	7a/
<u>Total developing countries of the American area</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>8</u>	<u>26</u>	<u>42</u>	<u>24</u>

Source: United States; Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1977.

a/ Estimates of the CEPAL/CTC Joint Unit.

/What is

What is immediately apparent is the high share of Brazil and Mexico, although at the same time there are significant differences: whereas Brazil accounted for 45% of investment in the metal manufactures and machinery industries, Mexico absorbed only 27% of that total. Thus 72% of the investment in this important sub-sector was concentrated in these two countries. On the other hand, the Mexican share of investment in the food and chemicals sub-sector was bigger than that of Brazil.

From the standpoint of these three industrial groups, it may be seen that the metal manufactures and machinery branch represents a high percentage of the manufacturing investment in these three major countries - 40% in Mexico, 47% in Argentina and 53% in Brazil. Venezuela is some way behind with 31%.

The chemicals branch absorbed a high percentage of total United States manufacturing investment in Panama (81%) and in Chile (47%). On the other hand, its share in that of Brazil is one of the lowest, which is explained by the great weight in that sub-sector of the Brazilian economy of investment both from domestic public and private sources and by transnational corporations from other industrialized countries.

The importance of investment in the food sub-sector is particularly great in the relatively less developed economies, the Central American Common Market and the group of "other Latin American countries".